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HGP
Horizon Group Properties

2020 Annual Report

Horizon Group Properties

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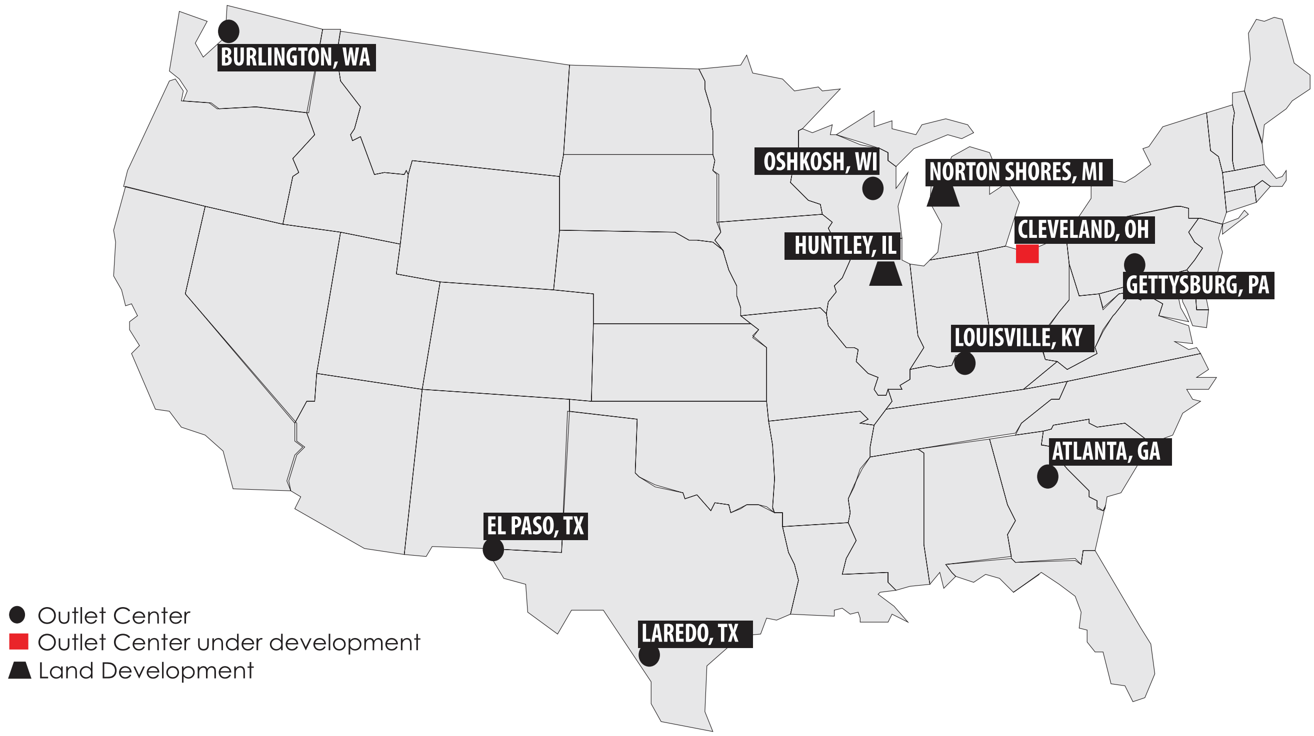
Portfolio



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

Dear Stockholder,

The team at Horizon Group Properties has worked through different business cycles and changes to the retail and outlet sectors over the last 22 years. The cycles and changes have been both good and bad with the economy and the industry growing and slowing at different paces. The "great recession" that began in 2008 presented the Company with some real challenges. Fortunately, we came out of that downturn relatively unscathed. In fact, we developed and opened the first substantial shopping center of any variety in the United States following the crisis.

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 purchasing consumer goods to experiential spending on food, travel and entertainment.

This change has had an impact on most of our centers with retailers closing stores because of falling sales and retailer bankruptcies. In 2019 and through July of 2020, Gymboree closed six stores, Charlotte Russe closed three stores, Kitchen Collection closed eight stores, Harry and David closed one store, and Motherhood Maternity closed three stores at our centers, either because of bankruptcy or exiting the business. G3, which owns Bass and Wilson's Leather, is closing all of its retail stores including four Bass and five Wilson's stores in our portfolio. Further, J Crew, Aldo, Brooks Brothers, GNC, New York & Co. and True Religion have declared bankruptcy and are instituting a combination of closures and rent renegotiations. Several of these were weak retailers pushed over the edge by COVID-19 impacts, but most were the result of the changing retail landscape.

Nothing our Company has experienced, whether an economic or retail downturn, can compare to the effect that COVID-19 has had. We are still in the midst of determining its total cost and impact. It may be a long time before we have a complete picture. Even when we are able to assess the damage, I think it will be an even longer time before we determine what the future holds for retail and, in our particular case, for outdoor outlet shopping centers.

It is a struggle to provide you with a clear picture of the Company given the uncertainty of our world at the present time. The best means to report what has happened at the Company and where it is headed is to divide the discussion into three sections: Pre COVID-19 Activity, COVID-19 Impact and the Post COVID-19 Future. Please recognize that everything has changed very rapidly during the course of the crisis and continues to do so. The course the Company takes over the next twelve months and beyond is still open to much uncertainty.

PRE COVID-19 ACTIVITY

Through February of this year, sales at five of our eight centers were up over the prior twelve months. The Outlet Shoppes at El Paso ("El Paso"), The Outlet Shoppes at Atlanta ("Atlanta"), and The Outlet Shoppes of the Bluegrass ("Louisville") had the largest increases. They continue to be very strong centers with great tenant mixes.

Atlanta continues to be a terrific center both in terms of sales and tenant mix. Same-store sales were nearly $500 per square foot pre COVID-19. Atlanta has lost several tenants due to bankruptcy but also has seen some strong leasing activity. Aerie, Sperry and a hair salon have all opened in the center over the past 18 months and Adidas is moving to a new space, increasing the size of its store from 4,500 to 9,000 square feet. Three new and exciting food court tenants recently opened or are in the process of opening. The food court is being remodeled to give it a fresh look.

A great deal of leasing progress was made at The Outlet Shoppes at Laredo since the beginning of 2019. New tenants to the center include Coach, Nautica, 7 for all Mankind, Cricket Wireless and a local hair salon. Adidas has converted its temporary store to a permanent one and is in the process of completing the interior for a fall reopening. At the same time, Wilson's Leather and Bass are closing for factors unrelated to the center.

At The Outlet Shoppes of the Bluegrass, traffic was up year over year and many of the most popular brands experienced double digit year-over-year sales increases. Sperry, 50 East Shoes and Direct Tools all opened stores. Further progress was made to improve the food offerings at the center with the addition of Nathan's Famous hot dogs and Carali's Rotisserie Chicken, a popular local restaurant that specializes in Peruvian rotisserie chicken. These two restaurants should be open by the time you receive this letter.

The strongest year-over-year same-store sales increases occurred at our center in El Paso. Commercial and residential development continues to be strong in our sector of the market which makes the center central to an area which, at one time, had been at the far edge of the city. Tory Burch, 7 for All Mankind, Torrid and Melrose opened stores along with Sbarro and Teriyaki Bowl in the food court. We are cautiously optimistic that the negotiations for two new in-line restaurants will be successfully finalized shortly.

The Company 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. Therefore, we sought Village approval to rezone approximately 100 acres for industrial development opportunities. Unfortunately, the Village Board declined to approve the proposal, preferring instead to consider a rezoning of the land when a parcel for industrial use was under contract. We are currently in discussion with several potential buyers, including build-to-suit opportunities as well as speculative developers. The discussions have slowed because of COVID-19 issues; however, the prospective buyers are staying engaged and we are cautiously optimistic that we will enter into a purchase contract later this year.

In June 2019, the Company sold Phase I of The Outlet Shoppes at Fremont for net proceeds of \$641,000. Prior to the sale, the Company had relocated most of the few remaining tenants to Phases II and III of the center.

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. It is referred to as the Ridgewalk development. Ultimately, the loan was restructured so that it now is entitled to receive a substantial portion of the proceeds from land sales. The Company 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. Unable to close on the property, last October FCA paid the Company a breakup fee of $1,120,000. .

Horizon subsequently created a new site plan that would allow the sale of the property in five parcels. In March, the first of these, a 2.2 acre parcel was sold for net proceeds of $1,678,130. From these proceeds, CBL receives $200,000 as part of the $1 million obligation tied to this acreage. Two other parcels are currently under contract and are expected to close later this year or early next. These lots total 2.2 acres with projected total net proceeds of $1,880,000.

In November, we closed on a sale of 21.4 acres of Ridgewalk land to Meritage Homes Corp. for a 125-unit townhome development. This sale allowed us to pay off a $2 million loan secured by all the Ridgewalk land and receive an additional $300,000 of proceeds. Construction on townhomes will commence later this summer. We believe this townhouse development will add more value to the remaining land as well as the outlet center.

Last year, I wrote that we were aggressively marketing in an auction format 33 acres of excess land adjacent to The Outlet Shoppes at El Paso and 20 acres of excess land adjacent to The Outlet Shoppes at Gettysburg. We were unsuccessful with these efforts and have hired new brokerage firms to market the land. There has been some serious interest in portions of the land in El Paso but nothing is at the contract stage.

In December, we closed on a $4,860,000 loan to retire an existing loan on Phase II at Atlanta. The loan is secured by the thirty three thousand square foot expansion, home to five outlet retailers and a Mexican restaurant. The loan has an interest rate of 30-day LIBOR plus 2.5% with a LIBOR floor of .5%. It matures in 2023 at the same time as the Phase I securitized loan and is pre payable without penalty.

A $9.1 million loan secured by Phase II of The Outlet Shoppes of the Bluegrass comes due in July of this year. Phase II is a forty eight thousand square foot expansion that is home to six national outlet retailers. The COVID-19 crisis has frozen the capital markets, especially for retail lending. As a result, we are currently working with the existing lender to arrange for an extension of the loan.

In August 2007, Horizon purchased a portfolio of outlet centers: The Outlet Shoppes at Burlington (Washington), The Outlet Shoppes at Fremont (Indiana), and the Outlet Shoppes at Oshkosh (Wisconsin). At the time of the purchase, each of the centers was on a downward trajectory in terms of sales and occupancy. After the acquisition, Horizon did renovations to update the centers and began a very successful leasing effort bringing the first Lululemon outlet in the country to one center and bringing two Nike's, two Under Amour's, Coach, Michael Kors, and Vans amongst other tenants to the centers.

As a result of the physical improvements to the centers and the new improved tenant mix the centers began to see sales and occupancy increases. The Company was optimistic that these centers would continue to improve. Unfortunately several years ago each of the centers began to suffer from specific retailer decisions and or market shifts, and all suffered from the retail downturn. In the case of Burlington, two new first-class outlet centers were built in the Vancouver market where none had previously existed. This dramatically reduced what had been a substantial flow of Canadian customers to the center. Around the same time, an outlet center 30 miles to the south had a sizable expansion and several of our key tenants were persuaded to relocate there.

Oshkosh lost the only American Girl Outlet store in the country because the owner wished to exit the outlet business. Likewise, Lands' End wanted to reduce its outlet footprint and closed its store. These losses, coupled with retailers going bankrupt or exiting the retail or outlet business, caused the net operating income at these centers to drop significantly. In 2019, the combined portfolio did not have adequate cash flow to support the operations of the center as well as pay debt service.

Horizon presented a plan to the servicer of the securitized loan secured by all three properties to reposition the centers and restructure the debt to enable the properties to again have adequate income to service the debt. The servicer of the debt was unwilling to consider our proposal unless it included a significant new capital infusion by Horizon. The Company does not believe that would be a prudent investment of capital.

Several weeks ago, a receiver was appointed for the center in Fremont and the servicer will be seeking receivers for the other two centers in the near future. We will remain the owner of the properties during this process. Barring some unforeseen or unusual circumstance at some point the servicer will either seek to negotiate a deed in lieu of foreclosure with the Company or foreclose on the properties.

While I am certainly disappointed by the outcome, I believe the Company did the best it could in all aspects of operating the properties and that they succumbed to circumstances beyond our control. More importantly, the properties were definitely good investments for which we received a return of our capital investment and an acceptable return thereon.

COVID-19 IMPACT

The first impact of the COVID-19 crisis hit Horizon in mid-March. During the first several weeks, both local and state governments and retailers were reacting in ever-changing ways. The first reaction of most retailers was to start limiting store hours. But it was not long before retailers were shutting stores regardless of the local mandates or regulations and in spite of the fact that most of our centers remained open.

As these events unfolded, we moved quickly and aggressively to reduce spending both at the centers and at the corporate office. It was very clear as stores closed that the primary task of the Company was to remain solvent through the crisis to protect our equity in the properties. We made the difficult decision to lay-off or furlough many property employees and cut the salaries of every employee at the Company, both corporate and property level, by 25-50%. We canceled non-essential contractual work and capital projects.

It was not too long before we began to receive letters from tenants asking for rent relief or indicating they were not paying rent. Some tenants even proposed long-term adjustments to the terms of their leases without really any idea of the impact of the crisis on their longer term business - clearly an attempt to use the virus as an excuse to cut better deals for their stores.

The lack of rents received in April made quite clear that the magnitude of the financial impact was even worse than imagined. Payments were running at 20-30% of historical levels. Actions beyond those already taken would be necessary. After Congress passed the stimulus bill to address the financial impact of the crisis, we applied for two PPP loans.

The PPP program was aimed at keeping employees on the payroll in light of the revenue shortfall facing many of the nation's business enterprises. We applied but were unable to receive loans from the first round of funding because of processing issues at our lender. We did make it into the second round and received $1,351,627 on May 5, 2020. These funds have been essential to our effort to survive the crisis. We believe that we are using the loan proceeds in a manner that will allow most of the loans to be forgiven.

At the same time, we approached our lenders to seek forbearance on our loans either in the form of interest or principal payment deferrals or both. We were fortunate to have lenders that were willing to work with us on the loan secured by our land in Huntley, the loan secured by Phase II in Atlanta and the loan secured by Village Green, a small strip shopping center in Huntley.

We were far less fortunate when it came to getting relief from the servicers who administer the securitized loans secured by most of our outlet centers. It was very difficult to get the servicers' attention, forcing us to continue paying full debt service to avoid defaulting on the loans. When the servicers finally responded to our overtures, it was with forbearance proposals which included terms that were beyond unreasonable. An example includes a servicer asking for what amounted to a $350,000 payment to allow us to defer three months of principal repayments into 2021. We declined these proposals and are still working to see if we can arrange some relief with commercially reasonable terms.

When it came to working with the tenants, we did so with the understanding that most were in dire straits and needed some sort of help. At the same time, we were still burdened with debt service, property taxes and all the other expenses associated with owning the centers. So it became a balancing act because we realized that if we did not make some accommodations with the tenants our rent receipts would be a fraction of the amount owed. During May and June, we worked with many of our tenants on a program of rent deferral and provided some with a small abatement in exchange for tenants catching up on past-due rent.

The agreements we made with tenants coupled with the re-opening of stores increased collected revenues in June to nearly 70% of the norm. These receipts are still well short of what is required for the business but substantially above April and May receipts. As of this writing, we have tenants that have yet to pay any rent over the past three months or to negotiate reasonably on relief. We are confident that our leases entitle us to rent from these tenants. There are no force majeure provisions that would apply to COVID-19 in our lease agreements. It is difficult to predict the actions that might be necessary to collect this rent or the amount of time collection will take. Our largest competitor has already filed a lawsuit to collect rent for stores owned by The Gap.

Store reopening began to occur in early May. The dates for reopening, the occupancies allowed, and other conditions varied widely by state and locality. Likewise, tenants had different operating procedures for their stores to protect employees and customers. Tenants also encountered difficulties hiring adequate staff to operate stores as some employees feared returning to work and others preferred to collect the generous unemployment benefits approved by Congress. As of this writing, there are stores that encounter days when staff is inadequate to open. We have temporarily adjusted center operating hours to help them deal with this staffing issue. We hope to return to normal hours in the near future.

Georgia allowed stores at our center in Atlanta to reopen on May 1. As with all of the centers in the portfolio, store openings occurred at a different pace. As of this writing, all but five stores have reopened at the center. Traffic has been strong and anecdotal reports from tenants are that sales have been strong as well. We will not know actual sales results for a few more weeks.

Results at other centers vary but Louisville is probably second to Atlanta in the speed and strength of the store reopening. Store openings and traffic have built steadily since reopening in mid-May.

Perhaps our biggest disappointment is at our centers in Texas. Throughout the crisis, the governments of El Paso and Laredo have been more restrictive than other areas in Texas. More problematic for these centers is the closure of the border with Mexico to tourists and other people more likely to be customers at our centers. Both centers, especially Laredo, are heavily dependent on Mexican shoppers for business.

In May 2014, the Company opened its first Johnny Rockets restaurant in Oshkosh. Over time we opened restaurants at our centers in Atlanta, Louisville and Laredo. We also launched a pizza concept called Stone & Stein in Laredo. We entered this business to provide dining alternatives at our centers that would keep shoppers at the centers rather than leaving to seek other dining options. We believe we had some success in this regard but the operating results were a different story. The portfolio of stores never made a profit; Johnny Rockets and Stone and Stein in Laredo had particularly poor results.

At the outset of the pandemic, we were making an effort to keep our managers and key employees on the payroll, albeit at reduced wages, with the hope that we would be able to reopen. It very quickly became obvious that the stores would remain closed for longer than initially anticipated. The concern grew that even if we weathered the storm, the restaurants, when reopened, would be even less profitable than they had been because of reduced seating, reduced demand, and costs to provide a safe environment to customers. Further, we had always has difficulty staffing the restaurants and feared our staffing experience would mirror that of our retailer tenants.

In late April, we made the difficult decision to close all of the stores. We are working aggressively to see if we can find other restaurants to take over the spaces. In Atlanta, we are fortunate to have found a tenant that will take over the store in the food court with a new hamburger concept. The lease is signed, construction is underway and we anticipate opening before Labor Day.

THE POST COVID-19 FUTURE

There are countless factors that will affect the Company as we move past COVID-19. The first factor will be the strength of the retailers we depend on at our centers. We know that a number of retailers will not survive the crisis. We have witnessed bankruptcies that resulted from already-weakened retailers pushed over the brink by the shutdowns and the economic downturn. Reduced occupancies and renegotiated lease terms will have a negative impact on the net operating incomes of our centers.

Over the last few years, owners of all categories of shopping centers have turned to food and entertainment to fill vacant space resulting from the dislocations in the retail sector. This direction also addressed a growing demand from consumers for experiential retail. The mix of retail, food and entertainment created a synergy that drove consumers to the shopping centers. The Company has been successful with some of our efforts to move in this direction. Unfortunately, food and entertainment venues have been among the biggest economic victims of the virus and it is unclear how their business models will work once the virus is under control.

In April, the Company commenced a new effort to address the vacancy issue. We are aggressively pursuing different but compatible uses for the centers including local merchants, service providers, medical providers, fitness companies and others. These efforts have already paid off with a store selling concrete statuary and a bulk candy store signing leases for one and five years, respectively, in Atlanta.

We are also aggressively approaching tenants in enclosed malls located in our markets to gauge their interest in moving to our open-air settings. We believe that our open-air centers are more appealing to shoppers who are concerned about the issue of being in enclosed spaces during the pandemic. In addition, consumers are drawn to outdoor settings after having spent so much time indoors over the past several months. Our marketing campaigns are focused on the fact that our centers are all open air.

We also think we have a competitive advantage during the current economic downturn. In the past, we have seen that in times of economic downturn, shoppers turned to the values they find at outlet shopping centers. There is no reason to believe that this will not be the case today.

The operations of the Company have in large part been supported by the fees earned from the development of new properties. Likewise, development has been responsible for the creation of most of the Company's value. As I have written in the past, the Company believes it has identified a great site and plan for a center in downtown Cleveland. Activity on this development has slowed considerably as the retailers with whom we need to enter into leases and the local governments with whom we need to finalize entitlements are focused on issues related to COVID-19. It is hard to determine when meaningful development activity will resume but we remain committed to this effort.

In closing, I would like to thank the staff at Horizon for their efforts during the pandemic. They have struggled mightily to get us through the crisis. They have all sacrificed income to keep us going with no clear picture of when things will return to normal. We cannot control the pandemic, the economic downturn or the macro changes to the retail sector. But we can control our efforts, focus, and creativity to do all in our power to improve the value of Horizon.

Gary J. Skoien
President and CEO
Chairman of the Board

Consolidated Financial Statements

Horizon Group Properties, Inc.

For the years ended December 31, 2019 and 2018

Horizon Group Properties, Inc.

Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Contents

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, 2019 and 2018, 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cohen & Company Ltd.

Akron, Ohio
February 27, 2020

HORIZON GROUP PROPERTIES, INC.

Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
	(In thousands)	
ASSETS		
Real estate		
Land	$ 11,147	$ 11,574
Buildings and improvements	47,758	47,006
Less accumulated depreciation	(12,644)	(8,566)
	46,261	50,014
Construction in progress	225	93
Land held for investment	29,944	32,909
Total net real estate	76,430	83,016
Investment in and advances to joint ventures	35,621	34,216
Investment in and advances to joint ventures, at fair value	50,649	50,449
Cash and cash equivalents	1,314	1,398
Restricted cash	2,177	2,751
Tenant and other accounts receivable, net	1,239	1,764
Deferred costs, (net of accumulated amortization of $121 and $116, respectively)	262	233
Other assets	1,022	1,374
Total assets	$ 168,714	$ 175,201
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage and other debt (net of debt issuance costs of $771 and $584, respectively)	$ 61,569	$ 62,512
Accounts payable and other accrued expenses	12,011	12,790
Prepaid rents and other tenant liabilities	503	724
Total liabilities	74,083	76,026
Commitments and contingencies		
Stockholders' equity:		
Common shares ($.01 par value, 50,000 shares authorized, 8,742 shares issued and outstanding)	87	87
Additional paid-in capital	81,976	81,697
Accumulated deficit	(29,738)	(24,561)
Total stockholders' equity attributable to the controlling interest	52,325	57,223
Noncontrolling interests in consolidated subsidiaries	42,306	41,952
Total stockholders' equity	94,631	99,175
Total liabilities and stockholders' equity	$ 168,714	$ 175,201

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

HORIZON GROUP PROPERTIES, INC.

Consolidated Statements of Operations

	Year Ended December 31, 2019	Year Ended December 31, 2018
	(In thousands)	
REVENUE		
Base rent	$ 7,161	$ 7,584
Percentage rent	167	214
Expense recoveries	721	825
Restaurant revenue	3,500	3,483
Management, development, and leasing fees	2,459	2,918
Other	1,152	249
Total revenue	15,160	15,273
EXPENSES		
Property operating	2,537	2,858
Real estate taxes	1,157	1,240
Other operating	979	754
Depreciation and amortization	4,200	4,468
General and administrative	5,912	7,158
Restaurant operating	3,719	3,911
Interest	3,090	3,055
Total expenses	21,594	23,444
OTHER INCOME AND EXPENSE		
Income from investment in joint ventures	1,672	931
Gain (loss) on sale of real estate	(576)	53
Loss on abandonment of assets	-	(351)
Total other income and expense	1,096	633
Consolidated net loss before income tax	(5,338)	(7,538)
Income tax benefit	231	47
Consolidated net loss	(5,107)	(7,491)
Less net loss (income) attributable to the noncontrolling interests	(70)	1,221
Net loss attributable to the Company	$ (5,177)	$ (6,270)

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, 2019	$ 87	$ 81,697	$ (24,561)	$ 57,223	$ 41,952	$ 99,175
Net income (loss)	-	-	(5,177)	(5,177)	70	(5,107)
Unit retirement	-	-	-	-	(26)	(26)
Stock warrants issued	-	279	-	279	-	279
Contributions from noncontrolling interests	-	-	-	-	2,239	2,239
Distributions to noncontrolling interests	-	-	-	-	(1,929)	(1,929)
Balance, December 31, 2019	$ 87	$ 81,976	$ (29,738)	$ 52,325	$ 42,306	$ 94,631

	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	$ 87	$ 81,697	$ (24,561)	$ 57,223	$ 41,952	$ 99,175

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, 2019	Year Ended December 31, 2018
	(In thousands)	
Cash flows provided by (used in) operating activities:		
Net loss attributable to the Company	$ (5,177)	$ (6,270)
Adjustments to reconcile net loss attributable to the Company to net cash provided by (used in) operating activities:		
Operating distributions from joint ventures	3,725	3,936
Net (income) loss attributable to the noncontrolling interests	70	(1,221)
Gain from investment in joint ventures	(1,672)	(931)
Loss (gain) from sale of real estate	576	(53)
Abandonment of future development	-	351
Depreciation	4,161	4,398
Amortization	39	70
Interest expense from deferred finance costs	158	129
Changes in assets and liabilities:		
Tenant and other accounts receivable - Net	525	(448)
Deferred costs and other assets	366	281
Accounts payable and other accrued liabilities	(779)	(4,974)
Prepaid rents and other tenant liabilities	(221)	420
Net cash provided by (used in) operating activities	1,771	(4,312)
Cash flows used in investing activities:		
Investment in future developments	(82)	(1,115)
Investment in joint ventures	(4,353)	(9,918)
Proceeeds from sale of marketable securities	-	9,312
Net proceeds from sale of real estate	3,726	450
Net distributions from joint ventures, return of capital	695	1,307
Expenditures for real estate	(1,877)	(4,371)
Net cash used in investing activities	(1,891)	(4,335)
Cash flows provided by (used in) financing activities:		
Distributions to noncontrolling interests	(1,929)	(1,477)
Contributions from noncontrolling interests	2,239	5,174
Retirement of noncontrolling interests	(26)	-
Net proceeds from borrowing	3,250	-
Principal payments on mortgages and other debt	(4,005)	(2,095)
Deferred finance costs acquired with debt	(67)	-
Stock issued	-	29
Net cash provided by (used in) financing activities	(538)	1,631
Net decrease in cash, cash equivalents, and restricted cash	(658)	(7,016)
Cash, cash equivalents, and restricted cash:		
Beginning of year	4,149	11,165
End of year	$ 3,491	$ 4,149

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

HORIZON GROUP PROPERTIES, INC.
Consolidated Statements of Cash Flows, continued

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	(In thousands)			
Reconciliation from consolidated statements of cash flows to consolidated balance sheets:				
Cash and cash equivalents	$	1,314	$	1,398
Restricted cash		2,177		2,751
Cash, cash equivalents, and restricted cash, End of year	$	3,491	$	4,149
Supplemental information:				
Noncash activity related to the disposal of fully depreciated or amortized assets:				
Building and improvements	$	83	$	10
Deferred costs		34		-
	$	117	$	10
Noncash activity related to warrants issued in conjunction with debt instrument	$	279	$	-

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

Note 1 – Organization and Principles of Consolidation

Horizon Group Properties, Inc. (“HGPI” or, together with its subsidiaries “HGP” or the “Company”) is a Maryland corporation that was established on June 15, 1998. The 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, 2019 and 2018, 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.

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 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, 2019 and 2018.

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, 2019 and 2018, pre-development costs classified as Other Assets included projects in Cleveland, OH and totaled $647,000 and $470,000, 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 in 2018.

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.

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 & 8). At December 31, 2019 and 2018, the escrow accounts related to the Company's primary lenders included approximately $313,000 and $271,000 in capital improvement and tenant allowance reserves, respectively, $966,000 and $863,000 in real estate tax and insurance escrows, respectively, and approximately $428,000 and $574,000 for cash collateral accounts, respectively. At December 31, 2019 and 2018, the Huntley interest, infrastructure and expense escrow accounts totaled $43,000. At December 31, 2019 and 2018 the Ridgewalk development escrow totaled $427,000 and $1.0 million, respectively.

Effective January 1, 2019, the Company adopted the provision in FASB Accounting Standards Update 2016-18, *Statements of Cash flows (Topic 230): Restricted Cash*, which requires the statement of cash flows to explain the charge during the period to total of cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents. The Company has adopted the provisions retrospectively.

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, 2019 and 2018, total tenant accounts receivable is reflected net of reserves of $472,000 and $238,000, respectively. The bad debt expense was $315,000 and $109,000 for the years ended December 31, 2019 and 2018, 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.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 606, Revenue from Contracts with Customers) which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue guidance in GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018. The Company adopted the provisions of ASC 606 retrospectively to all periods presented. The adoption of ASC 606 did not have a material impact on the Company's financial statements, although the financial statement presentation and disclosures have changed. Based on the Company's evaluation of its contracts with customer, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. Concurrent with the adoption of ASC 606, the Company has elected to apply certain practical expedients available to nonpublic companies with respect to disclosure requirements.

Revenue from Leasing Arrangements

Company's revenues primarily result from revenue from leasing arrangements that fall under Topic 840, *Leases*, and as such, ASC 606 does not apply. Leases with tenants are accounted for as operating leases. Lease revenues included minimum rent, percentage rent, other rents and reimbursements form tenants for real estate taxes, insurance, CAM and other operating expenses as provided in these lease agreements. 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 $355,000 and $370,000 as of December 31, 2019 and 2018, 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.

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. Under ASC 606, the Company recognizes revenue when the Company satisfies its performance obligation under the contract by transferring the promised product (food) to the customer when the customer obtains control of the product or service, which happens at the point of sale.

Management, Development and Leasing Fees

The company earns revenue from contracts with third parties and unconsolidated affiliates for property management, leasing, development and other services. These contracts are accounted for on a month-to-month basis. Management fees are charged as a percentage of revenues and recognized as revenue over time as services are provided. Leasing fees are charged for newly executed leases and lease renewals and are recognized as revenue upon lease execution, when the performance obligation is completed. Development fees are set as a fixed rate in a separate agreement.

Development and leasing fees received from an unconsolidated affiliate are recognized as revenue only to the extent of the third-party partner's ownership interest. The Company's share of such fees are recorded as a reduction to the Company's investment in the unconsolidated affiliate. Fees received from consolidated joint ventures are eliminated in consolidation.

Income Taxes

Deferred income taxes are recorded based on enacted statutory rates to reflect the tax consequences in future years of the differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets, such as net operating loss carryforwards which will generate future tax benefits, are recognized to the extent that realization of such benefits through future taxable earnings or alternative tax strategies in the foreseeable future is more likely than not.

As of December 31, 2019 and 2018, 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 2019 and 2018, 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.

Subsequent Events

Management has evaluated subsequent events through February 27, 2020, 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, 2019.

Property Name	Location	Property Type	Gross Leasable Area (Sq. Ft.)	Net Carrying Value (in thousands)	Ownership Percentage
The Outlet Shoppes at Burlington	Burlington, WA	Outlet Retail	174,660	$ 8,663	51.0%
The Outlet Shoppes at Fremont	Fremont, IN	Outlet Retail	110,510	5,902	51.0%
The Outlet Shoppes at Oshkosh	Oshkosh, WI	Outlet Retail	270,512	27,316	51.0%
Village Green Center	Huntley, IL	Retail	22,204	3,091	100.0%
Johnny Rockets	Oshkosh, WI Woodstock, GA Louisville, KY Laredo, TX	Restaurant	N/A	1,000	100.0%
Stone & Stein	Laredo, TX	Restaurant	N/A	276	100.0%
Corporate Assets	Chicago, IL	Various	N/A	13	100.0%
	Total		577,886	$46,261	

			Acres		
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	86	7,399	100.0%
Land Held for Investment	Huntley, IL	Land	355	20,389	100.0%
	Total		449	$ 29,944	

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, 2019. In addition, the joint ventures' own out parcels and other land for development.

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

El Paso Entities

During 2012, the Company sold 75% interest in El Paso Outlet Holdings, LLC ("El Paso Holding") to an affiliate of CBL & Associates Properties, Inc. ("CBL") for the outlet shopping mall in El Paso, Texas. El Paso Holding owns an entity that owns the outlet shopping center in El Paso, TX ("the El Paso Center"). During 2014, additional retail space owned by El Paso Outlet Center II Expansion, LLC, was developed at the El Paso Center. El Paso Outlet Center II Expansion is 100% owned by El Paso Outlet Center II, LLC ("El Paso II").

On September 10, 2018, El Paso Holdings and El Paso II refinanced existing debt from Phase I and Phase II of the shopping center with Deutche Bank in the amount of $75 million. In conjunction with the refinance, El Paso Holdings and El Paso II contributed its interest in Phase I and Phase II to El Paso Outlet Center CMBS, LLC ("El Paso CMBS"). El Paso CMBS is owned by an entity that is owned by El Paso Holdings. Phase I and Phase II of 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, 2019 and 2018 was $73.7 million and $74.8 million, respectively.

At December 31, 2018, El Paso Holding was owned 75% by CBL and 25% by Horizon El Paso, LLC ("Horizon El Paso"). During 2019, Pleasant Lake Apts., LP ("PLA"), an entity owned by Howard Amster, majority shareholder and director of the Company, and Pleasant Lake Skoien Investments, LLC ("PL Skoein"), an entity owner by Howard Amster and Gary Skoein, the Chairman of the Board, Chief Executive Officer ("CEO"), President, and a shareholder of the Company, acquired 17.625% and 7.375%, respectively, of CBL's interest in El Paso Holding. At December 31, 2019, El Paso Holding was owned 50% by CBL and 25% by Horizon El Paso, 17.625% by PLA, and 7.375% by PL Skoien.

El Paso Outlet Outparcels, LLC owns several outparcels (the "Outparcels"). At December 31, 2018, Outparcels was owned 50% by CBL and 50% by Horizon El Paso. During 2019, PLA and PL Skoien acquired 11.75% and 4.9167% of CBL's interest in Outparcels. At December 31, 2019, Outparcels was owned 50% by Horizon El Paso, 33.3333% by CBL, 11.75% by PLA, and 4.9167% by PL Skoien.

El Paso Outlet Outparcels II, LLC, formed in 2019, owns ancillary land adjacent to the shopping center (the "Outparcels II"). At December 31, 2019, Outparcels II was owned 50% by CBL and 50% by Horizon El Paso.

At December 31, 2019 and 2018, the Company owned 97.4% of the preferred interests and 92.8% of the common interest in Horizon El Paso.

As of December 31, 2019 and 2018, the Company's investment in the entities that own the Outlet Shoppes at El Paso, the Outparcels and the Outparcels II exceeded its proportional share of the underlying equity as reflected in the entities financial statements by approximately $10.2 million and $10.3 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 $822,000 and $1.0 million during the years ended December 31, 2019 and 2018, respectively.

Summary financial information (stated at 100%) for the El Paso entities as of December 31, 2019 and 2018, and for the years ended December 31, 2019 and 2018, are as follows (in thousands):

	As of December 31, 2019	As of December 31, 2018
Assets		
Real estate - net	$ 86,659	$ 89,976
Cash and cash equivalents	973	850
Restricted cash	2,573	2,743
Other assets	2,780	2,913
Total assets	$ 92,985	$ 96,482
Liabilities and members' equity		
Mortgages and other debt	$ 73,727	$ 74,823
Other liabilities	3,767	3,684
Members' equity	15,491	17,975
Total liabilities and members' equity	$ 92,985	$ 96,482

	Year Ended December 31, 2019	Year Ended December 31, 2018
Statements of Operations		
Revenue	$ 15,410	$ 15,155
Operating expenses	6,025	6,040
General and administrative expenses	927	880
Depreciation and amortization expense	4,123	4,010
Interest expense	3,878	4,481
Total expenses	14,953	15,411
Net income (loss)	$ 457	$ (256)

Gettysburg Entities

During 2012, an entity owned by an affiliate of CBL and an affiliate of Howard Amster and Gary Skoien converted a mezzanine loan into equity ownership in Gettysburg Outlet Center Holding, LLC and Gettysburg Outlet Center LLC (the "Gettysburg entities") At December 31, 2019 and 2018, the Gettysburg entities are owned 50% by CBL, 29.8% by PL Skoien, 19.1% by the Company, and 1.1% by other entities. Gettysburg Outlet Center Holding, LLC, owns Gettysburg Outlet Center, LP, which owns the shopping center. Gettysburg Outlet Center LLC owns vacant land around the shopping center. The 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 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 $37.1 and $37.8 million at December 31, 2019 and 2018, respectively.

The Company earned management, leasing, and similar fees from the Gettysburg Entities that totaled $243,000 and $455,000 during the years ended December 31, 2019 and 2018, respectively.

Summary financial information (stated at 100%) of the Gettysburg entities as of December 31, 2019 and 2018, and for the years ended December 31, 2019 and 2018, are as follows (in thousands):

	As of December 31, 2019	As of December 31, 2018
Assets		
Real estate - net	$ 39,644	$ 40,685
Cash and cash equivalents	932	261
Restricted cash	799	879
Other assets	1,175	1,217
Total assets	$ 42,550	$ 43,042
Liabilities and members' equity		
Mortgages and other debt	$ 37,140	$ 37,762
Other liabilities	1,010	922
Members' equity	4,400	4,358
Total liabilities and members' equity	$ 42,550	$ 43,042

	Year Ended December 31, 2019	Year Ended December 31, 2018
Statements of Operations		
Revenue	$ 6,463	$ 5,772
Operating expenses	2,633	2,870
General and administrative expenses	341	298
Depreciation and amortization expense	1,625	1,546
Interest expense	1,827	1,857
Total expenses	6,426	6,571
Gain on sale of land	5	-
Net income (loss)	$ 42	$ (799)

Atlanta Entities

During 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. At December 31, 2018, the Atlanta JV was owned 75% by CBL and 25% by Horizon Atlanta Outlet Shoppes, LLC ("Horizon Atlanta"). During 2019, PLA and PL Skoien, acquired 7.611% and 7.389%, respectively, of CBL's interest in the Atlanta JV. At December 31, 2019, the Atlanta JV was owned 50% by CBL, 35% by Horizon Atlanta, 7.611% by PLA, and 7.389% by PL Skoien. At December 31, 2019 and 2018, 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. In December 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 Atlanta JV increased from 25% to 35%. During 2019, Horizon Atlanta's ownership was increased to 35% representing this change to future distributions. The Company is responsible for the leasing and management of the center.

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 $71.7 million and $73.2 million at December 31, 2019 and 2018, 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 February 28, 2020, extended from December 19, 2019. The loan balance was $4.4 million and $4.6 million at December 31, 2019 and 2018, respectively. Subsequent to year-end, this loan was refinanced with Cadence Bank, N.A. The loan carries an interest rate of LIBOR plus 2.5%, payments based on a 25-year amortization and matures on November 5, 2023.

The Company received development, management, leasing, and similar fees from Atlanta JV that totaled $493,000 and $623,000 for the years ended December 31, 2019 and 2018, respectively.

Summary financial information (stated at 100%) of the Atlanta entities as of December 31, 2019 and 2018, for the years ended December 31, 2019, and 2018, are as follows (in thousands):

	As of December 31, 2019	As of December 31, 2018
Assets		
Real estate - net	$ 48,421	$ 51,734
Cash and cash equivalents	1,317	1,855
Restricted cash	424	388
Other assets	3,679	3,919
Total assets	$ 53,841	$ 57,896
Liabilities and members' deficit		
Mortgages and other debt	$ 76,135	$ 77,808
Other liabilities	995	1,039
Members' deficit	(23,289)	(20,951)
Total liabilities and members' equity	$ 53,841	$ 57,896

	Year Ended December 31, 2019	Year Ended December 31, 2018
Statements of Operations		
Revenue	$ 14,302	$ 14,040
Operating expenses	3,858	3,686
General and administrative expenses	541	534
Depreciation and amortization expense	3,891	4,516
Interest expense	3,909	3,976
Total expenses	12,199	12,712
Gain (loss) on sale of land	2	(1)
Net income	$ 2,105	$ 1,327

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. At December 31, 2019 and 2018, the Louisville JV was owned 65% by CBL and 35% by Horizon Louisville Outlets, LLC ("Horizon Louisville"). At December 31, 2019 and 2018, the Company owns 44.7% of the preferred interests and 34.4% of the common interests in Horizon Louisville, but maintains voting control over Horizon Louisville.

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%. The Company is responsible for the leasing and management of the center.

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 $70.2 million and $71.7 million at December 31, 2019 and 2018, 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, 2019 and 2018, the loan balance was $9.2 million and $9.5 million, respectively.

The Company received development, management, leasing, and similar fees from the Louisville JV that totaled $592,000 and $532,000 for the years ended December 31, 2019 and 2018, respectively.

Summary financial information (stated at 100%) of the Bluegrass entities as of December 31, 2019 and 2018, and for the years ended December 31, 2019 and 2018, is as follows (in thousands):

	As of December 31, 2019	As of December 31, 2018
Assets		
Real estate - net	$ 57,647	$ 62,459
Cash and cash equivalents	1,376	1,356
Restricted cash	809	1,658
Other assets	3,904	4,302
Total assets	$ 63,736	$ 69,775
Liabilities and members' deficit		
Mortgages and other debt	$ 79,390	$ 81,221
Other liabilities	940	920
Members' deficit	(16,594)	(12,366)
Total liabilities and members' equity	$ 63,736	$ 69,775

	Year Ended December 31, 2019	Year Ended December 31, 2018
Statements of Operations		
Revenue	$ 13,155	$ 14,143
Operating expenses	3,356	3,179
General and administrative expenses	542	582
Depreciation and amortization expense	5,630	5,199
Interest expense	3,515	3,563
Total expenses	13,043	12,523
Loss on sale of land	(7)	-
Net income	$ 105	$ 1,620

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. At December 31, 2019, and 2018 Laredo JV is owned 65% by CBL and 35% by Horizon El Portal, LLC ("Horizon El Portal"). At December 31, 2019, and 2018, the Company owns 60.8% of Horizon El Portal. Lawrence Friedman is a Class B member and will participate in distributions after certain internal rate of return hurdles are met.

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, 2019, and 2018, the loan balance was $42.0 million and $54.5 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 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. In May of 2019, the loan was extended through May 2021. As a condition of the extension Horizon El Portal and its partner, CBL, made a $10.8 million principal payment through capital contribution on the construction loan. Horizon El Portal's share of the payment was $3.8 million.

The Company received management, leasing development and similar fees from the Laredo JV that totaled $292,000 and $341,000 for the years ended December 31, 2019 and 2018, respectively.

Summary financial information (stated at 100%) of the Laredo JV as of December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018 is as follows (in thousands):

	As of December 31, 2019	As of December 31, 2018
Assets		
Real estate - net	$ 98,753	$ 102,942
Cash and cash equivalents	386	378
Restricted cash	534	465
Other assets	3,938	3,103
Total assets	$ 103,611	$ 106,888
Liabilities and members' equity		
Mortgages and other debt	$ 41,950	$ 54,550
Other liabilities	3,744	3,138
Members' equity	57,917	49,200
Total liabilities and members' equity	$ 103,611	$ 106,888

	Year Ended December 31, 2019	Year Ended December 31, 2018
Statements of Operations		
Revenue	$ 9,386	$ 8,779
Operating expenses	4,193	4,895
General and administrative expenses	366	447
Depreciation and amortization expense	5,650	5,204
Interest expense	2,889	5,044
Total expenses	13,098	15,590
Loss on sale of land	(9)	-
Net loss	$ (3,721)	$ (6,811)

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, 2019 and 2018, consisted of the following (in thousands):

	2019	2018
Current Benefit		
Federal	$(231)	$ -
State	-	(47)
Net Benefit	$(231)	$ (47)

For federal income tax purposes, HGPI had net operating loss carryforwards ("NOLs") of approximately $71.9 million and $71.6 million at December 31, 2019 and 2018, respectively. Of the $71.9 million available at December 31, 2019, approximately $63.3 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 of December 31, 2019 and 2018 (in thousands):

Deferred Tax Assets:	**2019**	**2018**
NOL carryforwards – federal and state	$18,115	$16,713
Tax basis of assets in excess of book basis:		
Fixed/intangible assets	-	397
Other	12	12
Book basis of liabilities in excess of tax basis:		
Prepaid rental revenue	98	41
Profits interest	-	-
Gross deferred tax assets	18,225	17,163
Less: valuation allowance	(10,780)	(9,774)
Gross deferred tax assets	7,445	7,389
Deferred Tax Liabilities:		
Book basis of assets in excess of tax basis:		
Fixed/intangible assets	(363)	-
Investments in and advances to joint ventures	(7,082)	(7,389)
Gross deferred tax liabilities	(7,445)	(7,389)
Net deferred tax asset	$ -	$ -

The valuation allowance related to the net deferred tax assets increased by approximately $1.0 million and $1.6 million in 2019 and 2018, respectively.

The Company's effective tax rate in 2019 and 2018 is lower than if the federal statutory rate were applied to net loss before income tax primarily due to the change in valuation allowance.

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):

2020	$ 5,521
2021	3,886
2022	2,605
2023	1,798
2024	1,324
Thereafter	2,161
	$17,295

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

Note 7 - 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, 2019, in the amount of $259,000 which are not reflected on the consolidated balance sheet as of December 31, 2019. These capital expenditures are expected to be paid during 2020, and are anticipated to be funded from capital improvement escrows, construction financing, equity contributions and additional borrowings.

Note 8 – Mortgages and Other Debt	Principal Balance as of:	
	December 31, 2019	December 31, 2018
Mortgage loan to Village Green Associates, LLC, from Peoples Bank SB, formerly First Personal Bank, (lender) with an interest rate of 6.5%, a maturity date of March 1, 2019, amended and extended to April 1, 2027, with an interest rate of 6.25%, secured by the shopping center in Huntley, Illinois and guaranteed by the Company. The loan will be paid through 59 monthly payments of $23,633, and 93 monthly payments of $23,063, including interest, and one balloon payment of $22,944.	$ 1,621	$ 1,806
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.	52,262	53,179
Mortgage loan to Huntley Development Limited Partnership, from Heartland Bank and Trust bearing interest at prime (4.75% and 5.50% at December 31, 2019 and 2018, respectively) plus 1.5% and maturing on July 1, 2019, amended and extended to July 1, 2021. Payments consist of 58 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, 2021. The Company guarantees this loan.	4,123	4,823
Promissory revolving draw note of $5 million to Horizon Group Properties, LP, from Pleasant Lake Apts., LP bearing interest at prime per annum and maturing on May 28, 2024. Payments consist of monthly interest payments beginning August 2019 with a balloon payment on May 28, 2024. The note is guaranteed by the Company and secured by its pledged membership interest in Horizon Louisville and in Horizon El Paso as it relates to the outparcels and ancillary land in El Paso.	3,250	-
Term loan to Johnny Rockets Oshkosh, LLC, from Bank First National as of May 23, 2017, for $328,761.53 bearing interest at 5.58% per annum, with a maturity date of February 22, 2022, guaranteed by the Company and secured by substantially all of the assets of Johnny Rockets Oshkosh, LLC.	84	121
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.	1,000	1,000
Note payable to Renasant Bank, formerly Brand Bank, bearing interest at the monthly LIBOR rate plus 4.5%, and the principal amortized over 10 years. A balloon payment was due in 2019 and the note was repaid. The note is secured by 80 acres of land in Woodstock, GA.	-	2,167
	62,340	63,096
Debt issuance cost	(771)	(584)
	$61,569	$62,512

Cash interest payments for the years ended December 31, 2019 and 2018, totaled $2.9 million and $3.1 million, respectively.

As part of the revolving draw note transaction with PLA (see Note 10), 541,667 warrants to purchase units or shares were issued to PLA. The warrants had a $3.00 exercise price and expire on May 29, 2024. The instruments were fair valued based on a Black-Scholes model. At December 31, 2019, the Company recorded a $279,000 increase in equity, $243,000 decrease in debt and a $36,000 debt issuance amortization expense.

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, 2019 and 2018.

Debt Maturities

Debt maturities and principal payments due subsequent to December 31, 2019, are as follows (in thousands):

Due in:		
2020		$1,834
2021		4,607
2022		1,212
2023		1,268
2024		4,626
Thereafter		48,793
	Total	$62,340

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.

Note 9 – Fair Value Measurements

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

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

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

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, 2019:

Description	Level 1	Level 2	Level 3
Investments in Joint Ventures	$	$	$ 50,649

Assets measured at fair value by level, in thousands, within the fair value hierarchy, are comprised of the following at December 31, 2018:

Description	Level 1	Level 2	Level 3
Investments in Joint Ventures	$	$	$ 50,449

Following is a reconciliation of activity, in thousands, for the years ended December 31, 2019 and 2018, for the fair value of the Company's Level 3 assets:

	2019	2018
Balance, beginning of period	$50,449	$49,237
Unrealized gains	3,925	4,093
Distributions	(3,725)	(2,881)
Balance, end of period	$50,649	$50,449

Quantitative information about the Company's Level 3 inputs for the years ended December 31, 2019 and 2018, are as follows:

Valuation Technique	Significant Unobservable Input
Income approach	Capitalization rate – 6.75% - 7%

Note 10 - Related Party Transactions

At December 31, 2019 and 2018, PLA owns (1) 49% of the interests in the entities that own the outlet centers and related assets in Burlington, WA; Fremont, IN; and Oshkosh, WI, (2) 17.625% and 0%, respectively of interest in El Paso Holding, (3) 11.75% and 0%, respectively of El Paso Outparcels, and (4) 7.611% and 0%, respectively of interest in Atlanta JV.

At December 31, 2019 and 2018, 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, (4) 14.7% of Horizon El Portal, LLC, (5) 7.375% and 0%, respectively of El Paso Holding, (6) 4.9167% and 0%, respectively of El Paso Outparcels, and (7) 7.389% and 0%, respectively of interest in Atlanta JV.

At December 31, 2019 and 2018, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At December 31, 2019 and 2018, Andrew Pelmoter, an officer of the Company, 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.

Net Profits Interests are recorded as a component of accounts payable and other accrued expenses on the accompanying balance sheet. The Net Profits Interests associated with Horizon Atlanta and Horizon Louisville continue to be adjusted associated with the Company's fair value election on these investments discussed in Note 1. As of December 31, 2019 and December 31, 2018, the Net Profits Interest liability approximated \$8.0 million and \$8.2 million, respectively.

Net profits interests have been granted to as follows: (1) Horizon El Paso - 3.5%, to Andrew Pelmoter, (2) Horizon OKC - 2.5%, 2.5% and 3% to Gary Skoien, Tom Rumptz and Andrew Pelmoter, respectively; (3) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and James Harris, respectively, (4) Horizon Louisville, - 1.25%, 1.25%, 1.25% and .0375% to Messers Skoien, Rumptz, Pelmoter and Harris, respectively, and (5) Horizon El Portal, - 1.52%, 1.52%, 1.22% and .61% to Messers Skoien, Pelmoter, Rumptz and Harris, respectively.

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

During 2019, PLA loaned the Company \$3.25 million. In conjunction with the loan the Company issued warrants to PLA up to 541,667 limited partnership units or shares. The warrants had a \$3.00 exercise price and expire on May 29, 2024 (see Note 8).

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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.

David Zlatin
Chief Operating Officer, Ramat Securities Ltd.

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
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STOCK TRADING

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

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