

CHELSEA PROPERTY GROUP INC
Form 11-K
July 12, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission File No. 333-62207

A. Full title of the Plan and the address of the Plan,
if different from that of the issuer named below:

Chelsea Property Group 401(K) Savings Plan

B. Name of the issuer of the securities held pursuant to the Plan
and the address of its principal executive office:

**CHELSEA PROPERTY GROUP, INC.
103 Eisenhower Parkway
Roseland, New Jersey 07068**

Chelsea Property Group 401(k) Savings Plan

Index to Financial Statements and Schedule

December 31, 2003

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Report of Independent Registered Public Accounting Firm

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Report of Independent Registered Public Accounting Firm

Chelsea Property Group 401(k) Savings Plan
Retirement and Benefits Committee

We have audited the accompanying statements of net assets available for benefits of Chelsea Property Group 401(k) Savings Plan as of December 31, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2003 and 2002, and the changes in its net assets available for benefits for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2003, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

New York, New York
June 15, 2004

Chelsea Property Group 401(k) Savings Plan

Statements of Net Assets Available for Benefits

December 31

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| | 2003 | 2002 |
|--|--------------|--------------|
| Assets | | |
| Investments, at fair value: | | |
| Vanguard Growth and Income Fund | \$ 708,384 | \$ 378,523 |
| Vanguard Balanced Index Fund | 364,758 | 256,169 |
| Vanguard Intermediate Term Bond Index Fund | 771,790 | 539,903 |
| Vanguard Asset Allocation Fund | 407,485 | 228,123 |
| Vanguard Growth Index Fund | 786,365 | 519,227 |
| Vanguard US Growth Fund | 308,232 | 179,099 |
| Fidelity Advisor Technology Fund | 342,143 | 152,320 |
| Fidelity Advisor Healthcare Fund | 207,435 | 131,472 |
| Vanguard 500 Index Fund | 783,163 | 453,067 |
| Vanguard International Growth Fund | 158,278 | 73,660 |
| Vanguard European Stock Index | 122,543 | 61,501 |
| Vanguard Federal Money Market Fund | 830,065 | 690,651 |
| Chelsea Property Group, Inc. Common Stock | 553,083 | 342,224 |
| Vanguard Money Market Reserves | 70,720 | 49,222 |
| Participant loans | 191,903 | 115,273 |
| Total investments | 6,606,347 | 4,170,434 |
| Receivables: | | |
| Participants contributions | 63,593 | 58,093 |
| Employer contributions | 21,506 | 18,648 |
| Dividends | 3,734 | - |
| Total receivables | 88,833 | 76,741 |
| Excess contributions payable | 23,984 | 23,320 |
| Net assets available for benefits | \$ 6,671,196 | \$ 4,223,855 |

See accompanying notes.

Chelsea Property Group 401(k) Savings Plan

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2003

| | |
|---|------------|
| Additions: | |
| Interest and dividends | \$ 249,681 |
| Participant contributions | 982,633 |
| Employer contributions | 285,755 |
| Participant rollovers | 268,057 |
| Total additions | 1,786,126 |
| Deductions: | |
| Participant withdrawals | 242,221 |
| Net realized and unrealized appreciation in fair value of investments | 903,436 |
| Net increase | 2,447,341 |
| Net assets available for benefits: | |

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| | |
|-------------------|--------------|
| Beginning of year | 4,223,855 |
| | ----- |
| End of year | \$ 6,671,196 |
| | ===== |

See accompanying notes.

Chelsea Property Group 401(k) Savings Plan

Notes to Financial Statements

December 31, 2003

1. Summary of Significant Accounting Policies

Method of Accounting

The financial statements of Chelsea Property Group 401(k) Savings Plan (the "Plan") are presented on the accrual basis of accounting.

Investments

Investments are valued at fair value using share values of the funds as reported by Metavante 401(k) Services on December 31, 2003 and December 31, 2002.

Appreciation or depreciation of securities represents realized gains (losses) and the change in fair value during the year.

Income Tax Status

The underlying non-standardized prototype plan has received an opinion letter from the Internal Revenue Service (IRS) dated August 7, 2001 stating that the form of the plan is qualified under Section 401 of the Internal Revenue Code, and therefore, the related trust is tax exempt. In accordance with Revenue Procedure 2002-6 and Announcement 2001-77, the Plan Sponsor has determined that it is eligible to and has chosen to rely on the current IRS prototype plan opinion letter. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax exempt.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Administrative Expenses

Except for a fee to purchase and sale transactions of Chelsea Property Group, Inc. common stock, all of the administrative expenses of the Plan are paid by the Plan sponsor.

Chelsea Property Group 401(k) Savings Plan

Notes to Financial Statements (continued)

2. Description of the Plan

The Plan is a defined contribution plan sponsored and administered by CPG Partners, L.P. (formerly Chelsea GCA Realty Partnership, L.P.) (the "Partnership") and was established for the purpose of allowing Plan members to make tax-deferred contributions through voluntary payroll withholdings in order to accumulate benefits to be paid upon retirement. The Partnership pays all administrative expenses incurred by the Plan except for a fee of \$0.25 per share for all purchase and sale transactions of Chelsea Property Group, Inc. (formerly Chelsea GCA Realty, Inc.) common stock which is paid by the participant. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Effective January 1, 2003, the Plan adopted the Metavante 401(k) Services, Inc. Non Standard 401(k) Profit Sharing Plan and Trust.

All employees of the Partnership are eligible to participate in the Plan after 6 months of service with no hours requirement. Employees who elect to enroll in the Plan may elect to have from 1% to 15% of their pre-tax gross pay (for up to a 40 hour work week) contributed to their account each pay period. This deduction may not exceed the maximum amount allowed under the Code of \$12,000 for 2003 and \$11,000 for 2002. Rollover contributions of \$268,057 in 2003 were made by participants from other qualified plans.

Effective November 1, 2002 (the "Transition Date"), Matrix Capital Bank Trust Services (the "Trustee") began serving as trustee of the Plan. Prior to the Transition Date, Tristar Retirement Services served as trustee of the plan. The Trustee has invested the assets of the Plan in funds maintained in pooled separate accounts held by Vanguard and Fidelity.

Effective February 1, 2000, the Company no longer offered Chelsea Property Group, Inc. common stock as an investment option. Participants can keep the common stock they currently have in their account, but they cannot purchase additional stock.

Employees participating in the Plan are eligible to receive a benefit upon their normal retirement date, disability retirement date or termination date, equal to the amount in their individual account. Participants are always 100% vested in their contributions including the earnings thereon.

Participants are eligible to borrow from their account. The minimum loan is \$500. A participant may borrow 50% of his or her vested balance to a maximum of \$50,000. The loans must be paid back within five years. The loans bore interest at a rate between 4.0 % and 8.0% at December 31, 2003 and 2002.

Chelsea Property Group 401(k) Savings Plan

Notes to Financial Statements (continued)

2. Description of the Plan (continued)

The Plan provides for an employer discretionary matching contribution. For the 2003 Plan year, the matching contribution was equal to 50 % of each participant's first 6 % contributed to the Plan.

As of December 31, 2003 and 2002, forfeitures in the amount of \$13,830 and \$8,366, respectively, will be used to reduce future Company contributions. Forfeitures arise from forfeited balances of terminated participant's nonvested

accounts.

Employees with the following titles are not eligible to participate in the matching contribution: Vice Chairman, Chief Executive Officer, Chief Financial Officer, President, Chief Operating Officer, Senior Vice President, Executive Vice President, and Vice President.

Participants shall have a vested percentage in the matching contributions as follows:

| | |
|----------------------------------|------|
| After 1 year of vesting service | 20% |
| After 2 years of vesting service | 40% |
| After 3 years of vesting service | 60% |
| After 4 years of vesting service | 80% |
| After 5 years of vesting service | 100% |

While the Partnership hopes and expects to continue the Plan indefinitely, it reserves the right to terminate, amend or modify the Plan at any time subject to the provisions of ERISA. Upon the termination of the Plan, the funds already invested in the Plan are distributed to the participants based on their account values at termination. If amounts have been deducted from a participant's paycheck but not yet deposited into the Plan, those funds are at risk because they are not yet considered part of the Plan.

This is not a complete description of the Plan. For more information on the Plan, see the Summary Plan Description available at the office of the Administrator, CPG Partners, L.P.

Chelsea Property Group 401(k) Savings Plan

Notes to Financial Statements (continued)

3. Net Appreciation (Depreciation) in Fair Value of Investments

During the year ended December 31, 2003, the investments of the Plan appreciated in fair value as follows:

| | |
|--|-----------|
| Vanguard Growth and Income Fund | \$149,502 |
| Vanguard Balanced Index Fund | 58,719 |
| Vanguard Intermediate Term Bond Index Fund | 27,983 |
| Vanguard Asset Allocation Fund | 79,100 |
| Vanguard Growth Index Fund | 147,787 |
| Vanguard US Growth Fund | 56,174 |
| Fidelity Advisor Technology Fund | 108,793 |
| Fidelity Advisor Healthcare Fund | 23,681 |
| Vanguard 500 Index Fund | 159,063 |
| Vanguard International Growth Fund | 33,529 |
| Vanguard European Stock Index | 31,785 |
| Chelsea Property Group, Inc. Common Stock | 27,320 |
| | ----- |
| | \$903,436 |
| | ===== |

Supplemental Schedule

EIN 22-3258100
Plan #: 001

Chelsea Property Group 401(k) Savings Plan

Schedule H, Line 4i--Schedule of Assets (Held at End of Year)

December 31, 2003

| Identity of Issue, Borrower, Lessor or Similar Party | Description of Investment, Including Maturity Date, Rate of Interest, Par or Maturity Value | Number of Shares | Curre Val |
|--|---|------------------------|--------------------------|
| Matrix Capital Bank | Vanguard Growth and Income Fund | 25,353.8 | \$ 70 |
| Matrix Capital Bank | Vanguard Balanced Index Fund | 19,964.9 | 36 |
| Matrix Capital Bank | Vanguard Intermediate Term Bond Index Fund | 72,197.4 | 77 |
| Matrix Capital Bank | Vanguard Asset Allocation Fund | 18,062.3 | 40 |
| Matrix Capital Bank | Vanguard Growth Index Fund | 31,555.6 | 78 |
| Matrix Capital Bank | Vanguard US Growth Fund | 20,331.9 | 30 |
| Matrix Capital Bank | Fidelity Advisor Technology Fund | 21,904.2 | 34 |
| Matrix Capital Bank | Fidelity Advisor Healthcare Fund | 11,033.8 | 20 |
| Matrix Capital Bank | Vanguard 500 Index Fund | 7,628.0 | 78 |
| Matrix Capital Bank | Vanguard International Growth Fund | 9,812.7 | 15 |
| Matrix Capital Bank | Vanguard European Stock Index | 5,570.2 | 12 |
| Matrix Capital Bank | Vanguard Federal Money Market Fund | 830,064.7 | 83 |
| Vanguard | Money Market Reserves | 70,720.2 | 7 |
| | | | ----- 5,86 |
| Chelsea Property Group, Inc.* | Common Stock | 10,090.9 | 55 |
| Participant loans receivable * | Interest rates range from 4.0% to 9.75% maturing through 2008 | | 19 |
| | | | ----- \$ 6,6 ===== |
| Total investments | | | \$ 6,6 ===== |

* Party-in-interest to the Plan.

Exhibit Index

Exhibit Number Document

Exhibit 1 Consent of Ernst & Young LLP