

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

Contents

Report of Independent Registered Public Accounting Firm

1

Financial Statements

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Statements of Net Assets Available for Benefits as of December 31, 2003 and 2002	2
Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2003	3
Notes to Financial Statements	4
Supplemental Schedule	
Schedule H, Line 4i--Schedule of Assets (Held at End of Year)	8
Exhibit Index	9

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

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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	Current Value
Matrix Capital Bank	Vanguard Growth and Income Fund	25,353.8	\$ 70,000.00
Matrix Capital Bank	Vanguard Balanced Index Fund	19,964.9	36,000.00
Matrix Capital Bank	Vanguard Intermediate Term Bond Index Fund	72,197.4	77,000.00
Matrix Capital Bank	Vanguard Asset Allocation Fund	18,062.3	40,000.00
Matrix Capital Bank	Vanguard Growth Index Fund	31,555.6	78,000.00
Matrix Capital Bank	Vanguard US Growth Fund	20,331.9	30,000.00
Matrix Capital Bank	Fidelity Advisor Technology Fund	21,904.2	34,000.00
Matrix Capital Bank	Fidelity Advisor Healthcare Fund	11,033.8	20,000.00
Matrix Capital Bank	Vanguard 500 Index Fund	7,628.0	78,000.00
Matrix Capital Bank	Vanguard International Growth Fund	9,812.7	15,000.00
Matrix Capital Bank	Vanguard European Stock Index	5,570.2	12,000.00
Matrix Capital Bank	Vanguard Federal Money Market Fund	830,064.7	83,000.00
Vanguard	Money Market Reserves	70,720.2	7,000.00
			----- 5,860.00
Chelsea Property Group, Inc.*	Common Stock	10,090.9	55,000.00
Participant loans receivable *	Interest rates range from 4.0% to 9.75% maturing through 2008		19,000.00
			----- \$ 6,600.00 =====

* Party-in-interest to the Plan.

Exhibit Index

Exhibit Number Document

Exhibit 1 Consent of Ernst & Young LLP