

SIMON PROPERTY GROUP INC /DE/
Form S-4/A
September 09, 2004

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As filed with the Securities and Exchange Commission on September 9, 2004

Registration No. 333-118247

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No.1
to
Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SIMON PROPERTY GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

6978
(Primary Standard Industrial
Classification Code Number)

046268599
(I.R.S. Employer
Identification No.)

National City Center
115 West Washington Street, Suite 15 East
Indianapolis, Indiana 46204
(317) 636-1600

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

James M. Barkley, Esq.
Simon Property Group, Inc.
National City Center
115 West Washington Street, Suite 15 East
Indianapolis, Indiana 46204
(317) 636-1600

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

with copies to:

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New York, New York 10038
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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Chelsea Property Group, Inc.
105 Eisenhower Parkway
Roseland, New Jersey 07068
(973) 228-6111

September 9, 2004

To the holders of common stock of Chelsea Property Group, Inc. and, for informational purposes only, to the holders of Chelsea's 8³/₈% Series A Cumulative Redeemable Preferred Stock

You are being asked to vote on an historic event for our company the proposed merger of Simon Acquisition I, LLC, a Maryland limited liability company and an indirect subsidiary of Simon Property Group, Inc., a Delaware corporation, with and into Chelsea Property Group, Inc., a Maryland corporation, which we refer to in this proxy statement/prospectus as the REIT Merger.

Your board of directors sees this as a unique strategic opportunity to combine with a growing and well-managed enterprise. In particular, your board of directors considered that:

the per share consideration provided for in the merger agreement represents a premium of approximately 24.6% over the average closing sale price for a share of Chelsea common stock for the 30 trading days ending on June 18, 2004, which was the last trading day before the announcement of the REIT Merger, and 13.3% over the closing sale price for a share of Chelsea common stock on June 18, 2004;

the per share consideration provided for in the merger agreement offers holders of Chelsea common stock both the opportunity to participate in the growth of the combined company and to continue to have an investment in the retail real estate industry through a larger and more diversified enterprise through the stock component, and to realize cash for a portion of the value of their shares through the cash component;

the combined operations should produce leasing and development opportunities which otherwise might not be available on a stand-alone basis;

Simon should be able to assist Chelsea in developing new revenue streams to enhance its existing portfolio; and

the combined operations should be in a better position to respond to changing market dynamics.

Chelsea's board of directors has approved and declared advisable the REIT Merger and the merger agreement. Your board unanimously recommends that the holders of Chelsea common stock vote "FOR" the approval of the REIT Merger and the merger agreement.

Attached to this letter is an important document providing detailed information concerning Simon, Chelsea and the REIT Merger and a more thorough explanation of your board's view of the REIT Merger and the other transactions contemplated by the merger agreement. PLEASE READ THIS DOCUMENT CAREFULLY, INCLUDING THE SECTION DESCRIBING RISK FACTORS BEGINNING ON PAGE 36.

In the proposed REIT Merger, Chelsea will become an indirect subsidiary of Simon. For each share of Chelsea common stock that you own, you will receive:

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\$36.00 in cash;

0.2936 of a share of Simon common stock; and

0.3000 of a share of Simon 6% Series I Convertible Perpetual Preferred Stock.

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The consideration that you will receive in the REIT Merger will not be adjusted unless the average closing price per share of Simon common stock during a specified period prior to the closing date of the REIT Merger is greater than \$58.75 or less than \$43.43. In such circumstances, the consideration that you will receive in the REIT Merger will be adjusted as described in this proxy statement/prospectus. In addition, Simon will not issue fractional shares of Simon common stock and Simon 6% Convertible Preferred Stock in the REIT Merger, but, after aggregating the number of shares that you are entitled to upon exchange of all of your Chelsea common stock, Simon will make a cash payment to you in lieu of any such fractional shares. See "Summary of the Mergers The REIT Merger."

On September 7, 2004, the closing price of Simon common stock was \$56.60 per share. The dollar value of the shares of Simon common stock to be issued in the REIT Merger will change depending on changes in the market price of Simon common stock and will not be known at the time that you vote on the REIT Merger and the merger agreement. You should obtain current market quotations for both the Simon common stock and the Chelsea common stock.

Simon common stock is listed on the New York Stock Exchange under the symbol "SPG" and Chelsea common stock is listed on the New York Stock Exchange under the symbol "CPG." We expect that the Simon 6% Convertible Preferred Stock to be issued in the REIT Merger will be listed on the New York Stock Exchange under the symbol "SPGPrI." There were 208,839,738 shares of Simon common stock outstanding on a fully diluted basis on September 7, 2004. Assuming that the Simon common stock exchange ratio is not adjusted, the outstanding limited partnership interests in CPG Partners, L.P. are not converted into Chelsea common stock and all outstanding options to acquire Chelsea common stock are converted into cash in the REIT Merger, we expect that Simon will issue approximately 12,963,454 shares of Simon common stock and approximately 13,246,036 shares of Simon 6% Convertible Preferred Stock in the REIT Merger.

Approval of the REIT Merger and the merger agreement by the holders of at least 66²/₃% of Chelsea's outstanding common stock entitled to vote thereon is required to complete the REIT Merger. Accordingly, you are cordially invited to attend a special meeting of holders of Chelsea common stock for the purpose of considering and voting upon the approval of the REIT Merger and the merger agreement to be held on October 13, 2004, at 10:00 a.m., local time, at the Hanover Marriott, 1401 Route 10 East, Whippany, New Jersey 07981.

Holders of our 8³/₈% Series A Cumulative Redeemable Preferred Stock do not have the right to vote on the REIT Merger, but will be issued one share of Simon's 8³/₈% Series J Cumulative Redeemable Preferred Stock in exchange for each share of their Chelsea Series A Preferred Stock in the REIT Merger. Simon does not intend to list the Simon 8³/₈% Preferred Stock on any national securities exchange or to seek the admission thereof for trading on any automated dealer quotation system. The Simon 8³/₈% Preferred Stock is expected to be eligible for trading in the PORTAL market, the National Association of Securities Dealers' screen-based automated market for trading of securities eligible for resale under Rule 144A.

Whether or not you plan to attend the special meeting, if you are a holder of Chelsea common stock please submit your proxy promptly by telephone or Internet in accordance with the instructions on the enclosed proxy card or by completing, dating and returning your proxy card in the enclosed envelope. Returning the proxy card or otherwise submitting your proxy does not deprive you of your right to attend the special meeting and vote in person. It is important to vote your shares of Chelsea common stock in person or by proxy because the failure to vote will have the same effect as a vote against the REIT Merger and the merger agreement.

We look forward to your support.

Sincerely,

David C. Bloom
Chairman and Chief Executive Officer
Chelsea Property Group, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the transactions contemplated by the merger agreement or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This proxy statement/prospectus is dated September 9, 2004 and is expected to be first mailed to Chelsea stockholders on or about that date.

REFERENCE TO ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about Chelsea and Simon from documents that are not included in or delivered with this document. You can obtain documents related to Chelsea or Simon that are incorporated by reference in this document, without charge, by requesting them in writing or by telephone from the appropriate company.

Chelsea Property Group, Inc.
Investor Relations
105 Eisenhower Parkway
Roseland, New Jersey 07068
(973) 228-6111

Simon Property Group, Inc.
Investor Relations
National City Center
115 West Washington Street, Suite 15 East
Indianapolis, Indiana 46204
(317) 636-1600

Please note that copies of the documents provided to you will not include exhibits unless the exhibits are specifically incorporated by reference into such documents or this proxy statement/prospectus.

In order to receive timely delivery of requested documents in advance of the special meeting, you should make your request no later than October 5, 2004.

For information on submitting your proxy, please refer to the instructions on the enclosed proxy card. To submit your proxy by telephone, you should dial 1-877-PRX-VOTE (1-877-779-8683) toll-free from a touch tone phone and follow the recorded instructions. To submit your proxy through the Internet, visit www.eproxyvote.com/cpg and follow the instructions on the website.

See "Where You Can Find More Information" beginning on page 160.

CHELSEA PROPERTY GROUP, INC.

**105 Eisenhower Parkway
Roseland, New Jersey 07068**

**NOTICE OF SPECIAL MEETING OF HOLDERS OF CHELSEA COMMON STOCK
TO BE HELD ON OCTOBER 13, 2004**

A special meeting of holders of Chelsea common stock will be held at 10:00 a.m., local time, on October 13, 2004 at the Hanover Marriott, 1401 Route 10 East, Whippany, New Jersey 07981 for the purpose of considering and voting on:

- (i) The approval of the REIT Merger and the Agreement and Plan of Merger, dated as of June 20, 2004, by and among Simon Property Group, Inc., Simon Property Group, L.P., Simon Acquisition I, LLC, Simon Acquisition II, LLC, Chelsea Property Group, Inc. and CPG Partners, L.P. (a copy of which is attached as Appendix A to the enclosed proxy statement/prospectus), and other procedural matters incident to the conduct of the special meeting, including any adjournments or postponements of the special meeting; and
- (ii) Any other business as may properly come before the special meeting, including any adjournments or postponements thereof.

The board of directors has fixed the close of business on August 23, 2004 as the record date. Only holders of Chelsea common stock of record at the close of business on the record date will be entitled to vote at the special meeting and any adjournments or postponements of the special meeting.

Holders of Chelsea's Series A Preferred Stock will not be entitled to vote on the REIT Merger and the merger agreement.

THE CHELSEA BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE IN FAVOR OF THE PROPOSAL TO APPROVE THE REIT MERGER AND THE MERGER AGREEMENT.

Please do not send any share certificates you may have at this time.

You should read carefully and in its entirety the attached proxy statement/prospectus which includes a copy of the merger agreement.

It is important that your shares of Chelsea common stock be represented at the special meeting. Whether or not you plan to attend the special meeting, please submit your proxy promptly by telephone or Internet in accordance with the instructions on the accompanying proxy card or by completing, dating and returning your proxy card in the enclosed envelope. A failure to vote will have the same effect as a vote against approval of the REIT Merger and the merger agreement. You may revoke your proxy at any time until it is voted by a later dated proxy or by attending the special meeting and voting in person.

By Order of the Board of Directors

Denise M. Elmer
Secretary

September 9, 2004

TABLE OF CONTENTS

	PAGE
QUESTIONS AND ANSWERS ABOUT THE MERGERS	1
SUMMARY OF THE MERGERS	9
The Companies	9
Comparative Per Share Market Price Data	10
The Special Meeting	10
The Merger Agreement	11
The REIT Merger	11
The Partnership Merger and the Optional Partnership Exchange Offer	14
Recommendation of the Chelsea Board of Directors	15
Opinion of Chelsea's Financial Advisor	15
Interests of Chelsea Directors and Officers in the Mergers	15
Material U.S. Federal Income Tax Consequences of the Mergers	17
Anticipated Accounting Treatment	18
Regulatory Matters Related to the Mergers	18
No Dissenters' Rights of Appraisal	18
Restrictions on Solicitation	18
Conditions to the Mergers	18
Termination	20
Voting Agreements	23
Put Agreement	23
Listing of Simon Securities	23
Comparison of Stockholder Rights	23
SUMMARY TERMS OF THE SIMON 6% CONVERTIBLE PREFERRED STOCK	24
SUMMARY TERMS OF THE SIMON 8 ³ / ₈ % PREFERRED STOCK	27
SELECTED CONSOLIDATED FINANCIAL DATA OF SIMON	29
SELECTED CONSOLIDATED FINANCIAL DATA OF CHELSEA	31
SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA	33
COMPARATIVE PER SHARE DATA	34
COMPARATIVE PER SHARE MARKET PRICE DATA	35
RISK FACTORS	36
Risks Relating to the Mergers	36
Risks Relating to the Simon 6% Convertible Preferred Stock and the Simon 8 ³ / ₈ % Preferred Stock	39
Risks Relating to Simon	40
CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS	44
RATIO OF SIMON'S EARNINGS TO FIXED CHARGES AND PREFERRED STOCK	45
DIVIDENDS	45
THE SPECIAL MEETING	46
General; Date; Time and Place	46
Purpose of the Special Meeting	46
Record Date; Voting Power	46
Required Vote; Quorum; How to Vote	46
Revocation of Proxy	47
Expenses of Solicitation	47
Questions About Voting Your Shares	47
THE MERGERS	48
Background of the Mergers	48

Recommendation of Chelsea's Board of Directors	52
Chelsea's Reasons for the Mergers	54
Opinion of Chelsea's Financial Advisor	57
Simon's Reasons for the Mergers	65
Interests of Chelsea Directors and Officers in the Mergers	67
Anticipated Accounting Treatment	73
Regulatory Matters Related to the Mergers	74
Merger Fees, Costs and Expenses	74
No Dissenters' Rights of Appraisal	74
Stock Exchange Listing and Related Matters	74
Resale of Simon Securities	74
Certain Litigation Relating to the Mergers	75
Recent Developments	76
THE MERGER AGREEMENT AND RELATED AGREEMENTS	77
Merger Agreement	77
Voting Agreements	97
Put Agreement	99
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION	101
MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE REIT MERGER, THE PARTNERSHIP MERGER AND THE OPTIONAL PARTNERSHIP EXCHANGE OFFER	116
Consequences to Chelsea's U.S. Stockholders of the REIT Merger	117
Consequences to Chelsea's Non-U.S. Stockholders of the REIT Merger	118
Backup Withholding	119
Certain Material U.S. Federal Income Tax Consequences of Owning and Disposing of Simon Common Stock, Simon 6% Convertible Preferred Stock and Simon 8 ³ / ₈ % Preferred Stock Received in the REIT Merger	119
Consequences to U.S. Unitholders of the Partnership Merger and/or the Optional Partnership Exchange Offer	123
Disposition of Simon Operating Partnership Common and Preferred Interests	126
DESCRIPTION OF SIMON CAPITAL STOCK	127
Authorized Stock	127
Description of Common Stock	128
Description of Simon 6% Convertible Preferred Stock	130
Description of Simon 8 ³ / ₈ % Preferred Stock	140
Description of the Book-Entry System	145
RESTRICTIONS ON OWNERSHIP AND TRANSFER OF SIMON SECURITIES	147
COMPARISON OF STOCKHOLDER RIGHTS	149
Number of Directors	149
Standard of Conduct for a Director	149
Removal of Directors	150
Filling Vacancies on the Board of Directors	150
Interested Director Transactions	151
Amendment of Charter	151
Amendment of Bylaws	151
Stockholder Meetings and Provisions for Notices; Proxies	152
Voting by Stockholders	152
Stockholder Action Without a Meeting	152
Merger, Consolidations and Sales of Assets Generally	152
Business Combinations	153

Appraisal Rights	153
Dividends	154
Limitation of Liability and Indemnification of Directors and Officers	155
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF CHELSEA	157
EXPERTS	159
LEGAL MATTERS	159
OTHER MATTERS	159
Simon 2005 Annual Meeting Stockholder Proposals	159
Chelsea 2005 Annual Meeting Stockholder Proposals	160
WHERE YOU CAN FIND MORE INFORMATION	160

APPENDICES

Appendix A	Agreement and Plan of Merger, dated as of June 20, 2004, by and among Simon Property Group, Inc., Simon Property Group, L.P., Simon Acquisition I, LLC, Simon Acquisition II, LLC, Chelsea Property Group, Inc. and CPG Partners, L.P.
Appendix B	Form of Voting Agreement by and among Simon Property Group, Inc., Simon Property Group, L.P. and certain limited partners of CPG Partners, L.P.
Appendix C	Put Agreement, dated as of June 20, 2004, by and between Simon Property Group, L.P. and CPG Partners, L.P.
Appendix D	Form of Certificate of Designations of 6% Series I Convertible Perpetual Preferred Stock of Simon Property Group, Inc.
Appendix E	Form of Certificate of Designations of 8 ³ / ₈ % Series J Cumulative Redeemable Preferred Stock of Simon Property Group, Inc.
Appendix F	Opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated

QUESTIONS AND ANSWERS ABOUT THE MERGERS

Q:
What am I being asked to vote on?

A:
Holders of Chelsea common stock are being asked to vote to approve the merger agreement entered into by and among Simon Property Group, Inc. (which we refer to in this proxy statement/prospectus as Simon), Simon Property Group, L.P. (which we refer to in this proxy statement/prospectus as the Simon Operating Partnership), Simon Acquisition I, LLC, Simon Acquisition II, LLC, Chelsea Property Group, Inc. (which we refer to in this proxy statement/prospectus as Chelsea) and CPG Partners, L.P. (which we refer to in this proxy statement/prospectus as the Chelsea Operating Partnership) and the merger of Simon Acquisition I, LLC with and into Chelsea pursuant to the merger agreement. In this proxy statement/prospectus, we refer to this merger as the REIT Merger.

The merger agreement also provides for the merger of Simon Acquisition II, LLC with and into the Chelsea Operating Partnership. In this proxy statement/prospectus, we refer to this merger as the Partnership Merger and we refer to the REIT Merger and the Partnership Merger collectively as the Mergers. You are not being asked to vote on the Partnership Merger, which requires the affirmative vote or consent of the holders of a majority of the limited partnership interests of the Chelsea Operating Partnership. As discussed herein, holders of approximately 72% of the common units of the Chelsea Operating Partnership (consisting of certain directors and officers of Chelsea and their affiliates) have entered into voting agreements with Simon and the Simon Operating Partnership pursuant to which they have agreed to vote such common units in favor of the Partnership Merger if the REIT Merger is approved. Such holders have the right to vote sufficient limited partnership interests to approve the Partnership Merger without the affirmative vote of any other holders of limited partnership interests in the Chelsea Operating Partnership, thus ensuring approval of the Partnership Merger on behalf

of the Chelsea Operating Partnership if the REIT Merger is approved by the holders of Chelsea common stock. Such holders, who own 0.7% of the outstanding Chelsea common stock, have also agreed to vote their Chelsea common stock in favor of the REIT Merger.

Holders of Chelsea 8³/₈% Series A Cumulative Redeemable Preferred Stock, which we refer to in this proxy statement/prospectus as the Chelsea Series A Preferred Stock, are not being asked to vote on the REIT Merger or the Partnership Merger.

Q:
What will I receive in the REIT Merger for each share of Chelsea common stock?

A:
In the REIT Merger, Chelsea will become an indirect subsidiary of Simon and each share of Chelsea common stock (other than shares owned by Chelsea, Simon or their direct or indirect wholly owned subsidiaries) shall be converted into the right to receive:

\$36.00 in cash;

0.2936 of a share of Simon common stock; and

0.3000 of a share of Simon 6% Series I Convertible Perpetual Preferred Stock.

We refer to the Simon 6% Series I Convertible Perpetual Preferred Stock in this proxy statement/prospectus as the Simon 6% Convertible Preferred Stock. For a description of the terms of the Simon 6% Convertible Preferred Stock, see "Description of Simon Capital Stock Description of Simon 6% Convertible Preferred Stock" beginning on page 130.

The consideration that you will receive in the REIT Merger will not be adjusted unless the average closing price per share of Simon common stock during a specified period prior to the closing date of the REIT Merger is greater than \$58.75 or less than \$43.43. In such circumstances, the consideration that you will receive in the REIT Merger will be adjusted as described below.

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You will not receive any fractional shares of Simon common stock or Simon 6% Convertible Preferred Stock in the REIT Merger. After taking into account all of the shares of Chelsea common stock delivered by you, Simon will pay you:

cash in lieu of any fraction of a share of Simon common stock that you may otherwise be owed in an amount equal to such fraction multiplied by the average per share closing price of Simon common stock quoted on the New York Stock Exchange for the 10 trading days ending two days prior to the closing date of the REIT Merger; and

cash in lieu of any fraction of a share of Simon 6% Convertible Preferred Stock that you may otherwise be owed in an amount equal to such fraction multiplied by \$50.00.

For example, if you own 101 shares of Chelsea common stock and the applicable average trading price of a share of Simon common stock described above is \$55.00, you will receive (1) \$3,636.00 in cash, (2) 29 shares of Simon common stock (and \$35.95 in lieu of a fractional share of Simon common stock) and (3) 30 shares of Simon 6% Convertible Preferred Stock (and \$15.00 in lieu of a fractional share of Simon 6% Convertible Preferred Stock).

Q: Can the number of shares of Simon common stock to be issued in the REIT Merger for each share of Chelsea common stock change between now and the time the REIT Merger is completed?

A: Yes. The number of shares of Simon common stock you will receive in the REIT Merger will be adjusted if the average of ten randomly selected (in a manner reasonably acceptable to Simon and Chelsea) closing prices of Simon common stock on the New York Stock Exchange during the period of the 30 most recent trading days ending on the fifth business day prior to the closing of the REIT Merger (the "Closing Date Reference Price") is greater than \$58.75 or lower than \$43.43. If the Closing Date Reference Price is greater than \$58.75, then the Simon common stock exchange ratio will be lowered so that you will only receive \$17.25 worth of Simon common stock in exchange for each share of Chelsea common stock based on the Closing Date Reference Price. If the Closing Date Reference Price is lower than \$43.43, then the Simon common stock exchange ratio will not be adjusted but you will receive an additional cash payment to ensure that you receive \$12.75 in value in exchange for each share of Chelsea common stock; the amount of any such additional cash payment shall be equal to \$12.75 less the value of 0.2936 of a share of Simon common stock valued at the Closing Date Reference Price. The amounts in this paragraph are in addition to the other cash consideration and Simon 6% Convertible Preferred Stock that you will receive in the REIT Merger.

If the Closing Date Reference Price is between \$43.43 and \$58.75, then there will be no adjustment to the Simon common stock exchange ratio and no additional cash payment. As a result, the market value in such circumstance of the Simon common stock that you will receive in the REIT Merger will depend on the market price of the Simon common stock on the closing date of the REIT Merger. See "Risk Factors" beginning on page 36.

In this proxy statement/prospectus, we refer to the cash, Simon common stock and Simon 6% Convertible Preferred Stock to be issued in the REIT Merger, after any of the above adjustments, as the REIT Merger Consideration.

Q: What will happen to shares of Chelsea Series A Preferred Stock in the REIT Merger?

A: Each share of Chelsea Series A Preferred Stock (other than shares owned by Chelsea, Simon or their direct or indirect wholly owned subsidiaries) will be converted into the right to receive one share of Simon 8³/₈% Series J Cumulative Redeemable Preferred Stock, which will have substantially the same terms and rights as the Chelsea Series A Preferred Stock. We refer to the Simon 8³/₈% Series J Cumulative Redeemable Preferred Stock in this proxy statement/prospectus as the Simon 8³/₈% Preferred Stock. For a summary of the terms and rights of the Simon 8³/₈% Preferred Stock, see "Description of Simon Capital Stock"

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Description of Simon 8³/₈% Preferred Stock" beginning on page 140.

Simon does not intend to list the Simon 8³/₈% Preferred Stock on any national securities exchange or to seek the admission thereof for trading on any automated dealer quotation system. The Simon 8³/₈% Preferred Stock is expected to be eligible for trading in the PORTAL market, the National Association of Securities Dealers' screen-based automated market for trading of securities eligible for resale under Rule 144A.

Immediately prior to the effective time of the REIT Merger, Chelsea shall pay any accumulated dividends on the Chelsea Series A Preferred Stock to the holders thereof for the period from the last preceding dividend payment date to but excluding the date of the closing of the REIT Merger. Dividends on the Simon 8³/₈% Preferred Stock will accrue from and after the date of the closing of the REIT Merger. The dividend payment dates for the Simon 8³/₈% Preferred Stock will be the last day of March, June, September and December of each year, commencing on the first such date to occur after the closing of the REIT Merger. On such date, Simon shall pay holders of Simon 8³/₈% Preferred Stock a dividend equal to the annual dividend rate of \$4.1875 per share for the period from and including the date of the closing of the REIT Merger to but excluding the date on which such initial dividend is payable based on a 360-day year of twelve 30-day months.

Q:
How does the Chelsea board of directors recommend that I vote?

A:
The Chelsea board of directors unanimously recommends that you vote "FOR" approval of the REIT Merger and the merger agreement.

Q:
Why is my board of directors recommending that I vote for approval of the REIT Merger and the merger agreement?

A:
In recommending that you vote for approval of the REIT Merger and the merger agreement, Chelsea's board of directors considered, among other things:

that the per share REIT Merger Consideration provided for in the merger agreement represented a premium of approximately 24.6% over the average closing sale price for a share of Chelsea common stock for the 30 trading days ending on June 18, 2004, which was the last trading day before the announcement of the Mergers, and 13.3% over the closing sale price for a share of Chelsea common stock on June 18, 2004;

that the REIT Merger Consideration offers holders of Chelsea common stock both the opportunity to participate in the growth of the combined company and to continue to have an investment in the retail real estate industry through a larger and more diversified enterprise through the stock component, and to realize cash for a portion of the value of their shares through the cash component;

its knowledge of Simon and its belief that Simon is a growing and well-managed enterprise, as well as the complementary nature of the businesses and geographical position of Chelsea and Simon;

the provisions of the merger agreement, including the limited nature of the closing conditions, the provisions regarding operating Chelsea as a separate division and the treatment of Chelsea employees following the Mergers, the exceptions to the no solicitation and board recommendation provisions, and the size of the termination fee; and

the fairness opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated.

For a more detailed explanation of the beliefs of your board of directors, see "The Mergers Chelsea's Reasons for the Mergers" beginning on page 54.

Q:
What vote of Chelsea stockholders and what vote of Simon stockholders is required in connection with the REIT Merger?

A:

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The affirmative vote of the holders of at least 66²/₃% of the outstanding shares of Chelsea common stock entitled to vote on the REIT Merger and the merger agreement is required to approve the REIT Merger and the merger agreement. No vote of Simon stockholders is required (or will be sought) in connection with the REIT Merger.

Q: What will happen if I do not vote?

A: If you do not vote your shares of Chelsea common stock, that will be the equivalent of a vote against approval of the REIT Merger and the merger agreement.

Q: What is the structure of the REIT Merger?

A: In the REIT Merger, Simon Acquisition I, LLC will be merged with and into Chelsea. After the REIT Merger, Chelsea will continue as the surviving corporation of the REIT Merger, will become a wholly owned subsidiary of the Simon Operating Partnership and will continue to be organized and operated in conformity with the requirements for qualification as a real estate investment trust, or REIT, until such time as it has been liquidated for U.S. federal income tax purposes.

Q: How much of Simon will Chelsea stockholders own after the REIT Merger?

A: After the REIT Merger, assuming that the Simon common stock exchange ratio is not adjusted, the outstanding limited partnership interests in the Chelsea Operating Partnership are not converted into Chelsea common stock and all outstanding options to acquire Chelsea common stock are converted into cash in the REIT Merger. Chelsea stockholders will own approximately 5.8% of the Simon common stock on a fully diluted basis (based on 208,839,738 shares of Simon common stock outstanding as of September 7, 2004), which percentage does not include any shares of Simon common stock that may become issuable upon conversion of the Simon 6% Convertible Preferred Stock or upon exchange of the common or preferred partnership interests of the Simon Operating Partnership to be issued in the Partnership Merger.

Q: What is the Partnership Merger?

A: As a condition to the closing of the REIT Merger, the Chelsea Operating Partnership must obtain the requisite approval of holders of a majority of its limited partnership interests for the merger of Simon Acquisition II, LLC with and into the Chelsea Operating Partnership. As discussed herein, holders of approximately 72% of the common units of the Chelsea Operating Partnership (consisting of certain directors and officers of Chelsea and their affiliates) have entered into voting agreements with Simon and the Simon Operating Partnership pursuant to which they have agreed to vote such common units in favor of the Partnership Merger if the REIT Merger is approved by the holders of Chelsea common stock. Such holders, who own 0.7% of the outstanding Chelsea common stock, have also agreed to vote their Chelsea common stock in favor of the REIT Merger.

The Chelsea Operating Partnership has agreed to redeem all of its outstanding Series B Cumulative Redeemable Preferred Units prior to the effective time of the Partnership Merger. As a result, the common units will be the only limited partnership interests in the Chelsea Operating Partnership entitled to vote on the Partnership Merger. The holders of common units that have entered into voting agreements have the right to vote sufficient limited partnership interests to approve the Partnership Merger without the affirmative vote of any other holders of limited partnership interests in the Chelsea Operating Partnership, thus ensuring approval of the Partnership Merger on behalf of the Chelsea Operating Partnership.

Subject to certain limitations contained in the voting agreements, the holders of common units in the Chelsea Operating Partnership have the right to convert such units into Chelsea common stock at any time prior to the REIT Merger, and any such shares of Chelsea common stock shall then be converted into the right to receive the REIT Merger Consideration in the REIT Merger.

In the Partnership Merger, each common unit of the Chelsea Operating Partnership (excluding common units owned by Chelsea, the Chelsea Operating Partnership, Simon, the Simon Operating Partnership or their direct or indirect wholly owned subsidiaries, which shall be cancelled in the Partnership Merger (other than any common units acquired by the Simon Operating Partnership in the Optional Partnership Exchange Offer discussed below, which shall remain outstanding after the Partnership Merger))

shall be converted into the right to receive 0.6459 of a common partnership interest in the Simon Operating Partnership and 0.6600 of a preferred partnership interest in the Simon Operating Partnership.

The common partnership interests in the Simon Operating Partnership to be issued in the Partnership Merger will be, at the request of the holder of such interests, exchangeable for cash or, at Simon's option, for shares of Simon common stock on a one-for-one basis. The preferred partnership interests in the Simon Operating Partnership to be issued in the Partnership Merger will have the same economic terms as the Simon 6% Convertible Preferred Stock except that they shall be, at the request of the holder of such interests, (1) convertible into common partnership interests in the Simon Operating Partnership on the same terms as the Simon 6% Convertible Preferred Stock shall be convertible into Simon common stock and (2) exchangeable for cash or, at Simon's option, for shares of Simon 6% Convertible Preferred Stock on a one-for-one basis.

In the event that the Closing Date Reference Price is greater than \$58.75, then the common partnership interest exchange ratio shall be adjusted to equal 0.6459 multiplied by a fraction, the numerator of which will be \$58.75, and the denominator of which will be the Closing Date Reference Price, and in the event that the Closing Date Reference Price is less than \$43.43, then the common partnership interest exchange ratio shall be adjusted to equal 0.6459 multiplied by a fraction, the numerator of which will be \$43.43, and the denominator of which will be the Closing Date Reference Price.

In this proxy statement/prospectus, we refer to the common and preferred partnership interests issued in the Partnership Merger, after any of the above adjustments to the common partnership interest exchange ratio, as the Partnership Merger Consideration.

The Partnership Merger will become effective immediately after the closing of the REIT Merger, with the Chelsea Operating Partnership as the surviving entity. Immediately after consummation of the Partnership Merger, the partners of the Chelsea Operating Partnership will be various subsidiaries of Simon.

Q: What is the Optional Partnership Exchange Offer?

A. The Simon Operating Partnership has agreed to offer each holder of common units in the Chelsea Operating Partnership the option to exchange immediately prior to the effective time of the Partnership Merger its common units in the Chelsea Operating Partnership for the Partnership Merger Consideration. In this proxy statement/prospectus, we refer to this exchange offer as the Optional Partnership Exchange Offer. Participation in the Optional Partnership Exchange Offer will be conditioned upon, among other things, the electing holder first delivering its consent to the Partnership Merger.

If the holders of all of the outstanding common units of the Chelsea Operating Partnership elect to participate in the Optional Partnership Exchange Offer, there will be no need to consummate the Partnership Merger. Instead, the Simon Operating Partnership will issue the Partnership Merger Consideration immediately after consummation of the REIT Merger to the holders of outstanding common units of the Chelsea Operating Partnership in exchange for such common units.

Q: What are the tax consequences of the REIT Merger to Chelsea stockholders?

A: The exchange of Chelsea common stock for the REIT Merger Consideration will be a taxable transaction for U.S. federal income tax purposes. In general, you will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the value of the REIT Merger Consideration you receive and your adjusted tax basis in the Chelsea common stock exchanged by you in the REIT Merger, except that any gain will constitute ordinary income to the extent of any dividends declared, but unpaid, with respect to your shares. Generally, if you have held your shares for more than one year, you will recognize any gain as long-term capital gain.

The deductibility of capital losses is subject to limitations.

The exchange of Chelsea Series A Preferred Stock for Simon $8\frac{3}{8}\%$ Preferred Stock will also be a taxable transaction for U.S. federal income tax purposes. However, assuming that the Simon $8\frac{3}{8}\%$ Preferred Stock has a value equal to its liquidation preference and your tax basis in your Chelsea Series A Preferred Stock is equal to its liquidation preference, you should not recognize any capital gain or loss on the exchange of those shares for Simon $8\frac{3}{8}\%$ Preferred Stock.

For further information concerning the U.S. federal income tax consequences of the REIT Merger, please see "Material U.S. Federal Income Tax Consequences of the REIT Merger, the Partnership Merger and the Optional Partnership Exchange Offer" beginning on page 116. Because the tax consequences of the REIT Merger are complex and may vary depending on your particular circumstances, you are urged to consult with your own tax advisors for a full understanding of the tax consequences of the REIT Merger to you.

Q: Will Simon and Chelsea coordinate the declaration and payment of dividends prior to the completion of the REIT Merger?

A: Yes. In the merger agreement, Simon and Chelsea have agreed to coordinate the declaration and payment of dividends on Simon common stock and Chelsea common stock, including with respect to record dates and payment dates. However, this does not apply to Chelsea's regular second quarter 2004 dividend and Simon has consented to Chelsea not complying with this requirement with respect to coordinating Chelsea's regular third quarter dividend with Simon's quarterly dividend which was paid on August 31, 2004.

Chelsea paid a dividend on July 12, 2004 of \$0.60 per share of Chelsea common stock to holders of record on June 30, 2004 for the second quarter of 2004. In addition, as a result of the consent described above, Chelsea currently expects to pay a dividend of \$0.60 per share of Chelsea common stock to holders of record on September 30, 2004 for the third quarter of 2004.

As the REIT Merger will close after the special meeting of the Chelsea stockholders (which is scheduled for October 13, 2004), Chelsea will declare its regular third quarter dividend to its stockholders of record on September 30, 2004, and Chelsea will also declare a partial quarterly dividend for the number of days elapsed from September 30, 2004 to and including the closing date of the REIT Merger with a record date on the day immediately prior to the closing date. Simon will also declare a partial quarterly dividend for the number of days elapsed from August 17, 2004 (its second quarter 2004 dividend record date) to and including the closing date of the REIT Merger with a record date on the day immediately prior to the closing date. For example, if the REIT Merger closes on October 15, 2004, Chelsea and Simon would each declare a partial quarterly dividend with a record date on October 14, 2004. Chelsea's per share partial fourth quarter dividend on its common stock would be an amount equal to \$0.60 (its expected quarterly 2004 dividend amount) multiplied by 15 (the number of days since the last Chelsea record date on September 30, 2004 through and including the effective date of the REIT Merger), and then divided by 92 (the total number of days in its fourth quarter), which would result in a partial closing dividend of \$0.097826 per share of Chelsea common stock. Simon would cause Chelsea to deliver this partial fourth quarter dividend within 10 days after the closing of the REIT Merger to Chelsea's stockholders of record on the day immediately prior to the closing of the REIT Merger.

After the effective date of the REIT Merger, former Chelsea stockholders who receive Simon common stock in the REIT Merger shall have the right to receive dividends from Simon on such shares of Simon common stock for the periods after the effective date to the extent they continue to hold such stock on the applicable record dates for such post-closing periods.

See "The Merger Agreement and Related Agreements Merger Agreement Coordination of Dividends" beginning on page 91.

Q: When do you expect the Mergers to be completed?

A: We expect to complete the Mergers after we receive Chelsea stockholder approval at the special meeting. We currently anticipate closing in the fourth quarter of 2004. However, it is possible that factors outside Simon's and Chelsea's control could require us to complete the Mergers at a later time or not complete them at all.

Q: What do I need to do now?

A: If you hold shares of Chelsea common stock, after carefully reading and considering the information contained in this proxy statement/prospectus and consulting with your tax and other advisors, please submit your proxy by telephone or Internet in accordance with the instructions set forth on the enclosed proxy card, or fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed prepaid envelope, as soon as possible so that your shares of Chelsea common stock may be voted at the special meeting. See "The Special Meeting" beginning on page 46.

If you hold shares of Chelsea Series A Preferred Stock, you do not need to do anything at this time. If the REIT Merger is approved and consummated, Mellon Investor Services LLC, as exchange agent, will promptly thereafter send you the necessary documents to exchange your shares of Chelsea Series A Preferred Stock for shares of Simon 8³/₈% Preferred Stock.

Q: If my shares of Chelsea common stock are held in "street name" by my broker, will my broker vote my shares of Chelsea common stock for me?

A: Your broker will not vote your shares of Chelsea common stock unless you instruct the broker to do so. Please check with your broker and follow the voting procedures your broker provides. Your broker will advise you whether you may submit voting instructions by telephone or Internet. If you do not instruct your broker, your broker will not have the discretion to vote your shares of Chelsea common stock. Because approval of the REIT Merger and the merger agreement requires the affirmative vote of the holders of at least 66²/₃% of the outstanding shares of Chelsea common stock entitled to vote thereon, these so-called "broker non-votes," where the broker does not vote for or against approval of the REIT Merger and the merger agreement, have the same effect as votes cast against approval of the REIT Merger and the merger agreement. See "The Special Meeting Required Vote; Quorum; How to Vote" beginning on page 46.

Q: May I change my vote after I have submitted a proxy by telephone or Internet or mailed my signed proxy card?

A: Yes. You may change your vote at any time before your proxy is voted at the special meeting. You can do this in several ways. You can send a written notice stating that you want to revoke your proxy, or you can complete and submit a new proxy card. If you choose either of these methods, you must submit your notice of revocation or your new proxy card to the Secretary of Chelsea.

In addition, you can change your vote by submitting a proxy at a later date by telephone or Internet, in which case your later-submitted proxy will be recorded and your earlier proxy revoked. You can also attend the special meeting and vote in person. Simply attending the special meeting, however, will not revoke your proxy; you must vote at the special meeting.

If you have instructed a broker to vote your shares of Chelsea common stock, you must follow the voting procedures received from your broker to change your vote.

Q: If I want to attend the special meeting, what do I do?

A: You must come to the Hanover Marriott, 1401 Route 10 East, Whippany, New Jersey 07981 at 10:00 a.m., local time, on October 13, 2004.

Q: Should I send in my stock certificates now?

A:

No. If you hold any Chelsea stock certificates, you will receive written instructions for exchanging those Chelsea stock certificates for the REIT Merger Consideration or the Simon 8³/₈% Preferred Stock (as applicable). You may not have received any stock certificates because your Chelsea securities

were directly registered. The written instructions you will receive will also advise you what to do if your securities were directly registered.

Q: What if I cannot find my stock certificate?

A: There will be a procedure for you to receive the REIT Merger Consideration or the Simon 8³/₈% Preferred Stock (as applicable) in the REIT Merger even if you lost one or more of your Chelsea stock certificates. This procedure, however, may take time to complete. In order to ensure that you will be able to receive the REIT Merger Consideration or the Simon 8³/₈% Preferred Stock (as applicable) promptly after the REIT Merger is completed, if you cannot locate your Chelsea certificates after looking for them carefully, we urge you to contact EquiServe Trust Company, N.A. as soon as possible and follow the procedure for replacing your Chelsea certificates. EquiServe Trust Company, N.A. can be reached at (781) 575-3400, or you can write to EquiServe Trust Company, N.A. at the following address:

EquiServe Trust Company, N.A.
Shareholder Services
P.O. Box 43010
Providence, Rhode Island 02940-3010

Q: Who can help answer my additional questions about the REIT Merger, the Partnership Merger or the Optional Partnership Exchange Offer?

A: If you have questions about the REIT Merger, the Partnership Merger or the Optional Partnership Exchange Offer, you should contact:

MacKenzie Partners, Inc.
105 Madison Avenue
New York, New York 10016

Call Toll-Free:
(800) 322-2885
or
Call Collect:
(212) 929-5500

SUMMARY OF THE MERGERS

This summary highlights selected information from this proxy statement/prospectus. It does not contain all of the information that may be important to you. You should carefully read this entire proxy statement/prospectus and the other documents to which this document refers for a more complete understanding of the matters being considered at the special meeting. See "Where You Can Find More Information" beginning on page 160. Unless we have otherwise stated, all references in this proxy statement/prospectus to Simon are to Simon Property Group, Inc., all references to the Simon Operating Partnership are to Simon Property Group, L.P., all references to Chelsea are to Chelsea Property Group, Inc., all references to the Chelsea Operating Partnership are to CPG Partners, L.P. and all references to the Mergers are to the REIT Merger and the Partnership Merger.

The Companies

Simon Property Group, Inc. and Simon Property Group, L.P.

National City Center
115 West Washington Street, Suite 15 East
Indianapolis, Indiana 46204
(317) 636-1600

Simon owns, operates, manages, leases, acquires, expands and develops real estate properties, primarily regional malls and community shopping centers. Simon has elected to be taxed as a REIT for U.S. federal income tax purposes.

The core of Simon's business originated with the shopping center businesses of Melvin Simon, Herbert Simon, David Simon and other members and associates of the Simon family. Simon has grown significantly by acquiring properties and merging with other real estate companies, including its merger with DeBartolo Realty Corporation in 1996 and its combination with Corporate Property Investors, Inc. in 1998.

As of June 30, 2004, Simon and Simon's majority-owned operating partnership subsidiary, Simon Property Group, L.P., owned or held an interest in 247 income-producing properties in North America which consisted of 176 regional malls, 67 community shopping centers and four office and mixed-use properties in 37 states, Canada and Puerto Rico. Mixed-use properties are properties whose operating income includes two or more significant retail, office and/or hotel components. As of the same date, Simon owned interests in four parcels of land held for future development and had ownership interests in other real estate assets in the United States. Finally, Simon had ownership interests in 48 assets in Europe (France, Italy, Poland and Portugal).

If you want to find more information about Simon, please see the section entitled "Where You Can Find More Information" beginning on page 160.

Simon Acquisition I, LLC and Simon Acquisition II, LLC

Simon Acquisition I, LLC is a Maryland limited liability company and a direct wholly owned subsidiary of the Simon Operating Partnership. Simon Acquisition I, LLC was organized on June 17, 2004 solely for the purpose of effecting the REIT Merger. It has not carried on any activities other than in connection with the merger agreement.

Simon Acquisition II, LLC is a Delaware limited liability company and a direct wholly owned subsidiary of Simon Acquisition Holdings II, LLC, which itself is a Delaware limited liability company and a direct wholly owned subsidiary of the Simon Operating Partnership. Simon Acquisition II, LLC and Simon Acquisition Holdings II, LLC were organized on June 17, 2004 solely for the purpose of effecting the Partnership Merger. They have not carried on any activities other than in connection with the merger agreement.

Chelsea Property Group, Inc. and CPG Partners, L.P.

105 Eisenhower Parkway
Roseland, New Jersey 07068
(973) 228-6111

Chelsea is the managing general partner of CPG Partners, L.P., an operating partnership that specializes in owning, developing, leasing, marketing and managing upscale and fashion-oriented manufacturers' outlet centers. Chelsea has elected to be treated as a REIT for U.S. federal income tax purposes. As of June 30, 2004, Chelsea wholly or partially owned 60 centers in 31 states and Japan containing approximately 16.6 million square feet of gross leasable area. Chelsea's portfolio consisted of 40 domestic and international outlet centers containing 13.9 million square feet of gross leasable area and 20 other centers containing approximately 2.7 million square feet of gross leasable area. The outlets generally are located near metropolitan areas including New York City, Los Angeles, Chicago, Boston, Washington, D.C., San Francisco, Sacramento, Atlanta and Dallas, as well as Tokyo, Osaka and Fukuoka, Japan. Some outlets are also located within 20 miles of major tourist destinations including Palm Springs, Napa Valley, Orlando, Las Vegas and Honolulu.

If you want to find more information about Chelsea, please see the section entitled "Where You Can Find More Information" beginning on page 160.

Comparative Per Share Market Price Data

(Page 35)

Simon common stock and Chelsea common stock are each listed on the New York Stock Exchange. Simon's and Chelsea's ticker symbols are "SPG" and "CPG," respectively. The following table sets forth the closing prices per share of Simon common stock and Chelsea common stock as reported on the New York Stock Exchange Composite Transaction Tape on June 18, 2004, the last full trading day prior to the announcement of the merger agreement, and on September 7, 2004, the most recent practicable date prior to the mailing of this proxy statement/prospectus to Chelsea's stockholders. This table also sets forth the pro forma equivalent price per share of Chelsea common stock on June 18, 2004 and on September 7, 2004. The pro forma equivalent price per share is equal to (a) the closing price of a share of Simon common stock on each such date multiplied by 0.2936 (the exchange ratio for the issuance of Simon common stock in the REIT Merger, excluding the effect of any adjustments based on the Closing Date Reference Price of Simon common stock) plus (b) \$36.00 (the cash portion of the consideration for each share of Chelsea common stock in the REIT Merger) plus (c) \$15.00 (the \$50.00 liquidation value of a share of Simon 6% Convertible Preferred Stock multiplied by 0.3000, which is the exchange ratio for the issuance of Simon 6% Convertible Preferred Stock in the REIT Merger). These prices will fluctuate prior to the special meeting and the REIT Merger, and stockholders are urged to obtain current market quotations prior to making any decision with respect to the REIT Merger.

	Simon Common Stock	Chelsea Common Stock	Chelsea Pro Forma Equivalent
At June 18, 2004	\$ 52.30	\$ 58.24	\$ 66.36
At September 7, 2004	\$ 56.60	\$ 67.40	\$ 67.62

The Special Meeting

(Page 46)

When and Where

The special meeting will be held at 10:00 a.m., local time, on October 13, 2004 at the Hanover Marriott, 1401 Route 10 East, Whippany, New Jersey 07981.

Purpose of the Special Meeting

The purpose of the special meeting is to vote upon approval of the REIT Merger and the merger agreement.

Record Date; Voting Power

Only holders of Chelsea common stock as of the close of business on August 23, 2004, the record date, are entitled to vote at the special meeting or any adjournments or postponements of the special meeting. Each share of Chelsea common stock is entitled to one vote.

Required Vote

The affirmative vote of the holders of at least 66²/₃% of the outstanding shares of Chelsea common stock as of the record date is required to approve the REIT Merger and the merger agreement. A stockholder may vote in person at the special meeting or by proxy without attending the special meeting. Proxies may be authorized by telephone, via the Internet or by mailing a signed proxy card. The failure to vote, or the abstention from voting, by a stockholder will have the same effect as a vote against approval of the REIT Merger and the merger agreement. As of the record date, 44,155,389 shares of Chelsea common stock were outstanding. On the record date, approximately 1.7% of the outstanding shares of Chelsea common stock were held by directors and executive officers of Chelsea and their respective affiliates. All of Chelsea's directors and executive officers have indicated that they intend to vote their shares of Chelsea common stock in favor of approval of the REIT Merger and the merger agreement.

The Merger Agreement

(Page 77)

The merger agreement is described in "The Merger Agreement and Related Agreements" beginning on page 77. The merger agreement is also attached to this proxy statement/prospectus as Appendix A. We urge you to read the entire merger agreement because it is the legal document governing the REIT Merger.

The REIT Merger

(Page 77)

The merger agreement provides for, among other things, the merger of Simon Acquisition I, LLC, a direct wholly owned subsidiary of the Simon Operating Partnership, with and into Chelsea. Following completion of the REIT Merger, Chelsea will continue as the surviving corporation of the REIT Merger, will become a wholly owned subsidiary of the Simon Operating Partnership and will continue to be organized and operated in conformity with the requirements for qualification as a REIT until such time as it has been liquidated for U.S. federal income tax purposes.

Treatment of Chelsea Common Stock

In the REIT Merger, each share of Chelsea common stock (other than shares owned by Chelsea, Simon or their direct or indirect wholly owned subsidiaries) shall be converted into the right to receive:

\$36.00 in cash;

0.2936 of a share of Simon common stock; and

0.3000 of a share of Simon 6% Convertible Preferred Stock.

If the Closing Date Reference Price is greater than \$58.75, then the Simon common stock exchange ratio shall be adjusted to equal 0.2936 multiplied by a fraction, the numerator of which will be \$58.75, and the denominator of which will be the Closing Date Reference Price. As a result, the Simon common stock exchange ratio will be reduced and you will receive less shares of Simon common stock than you would have using the original exchange ratio of 0.2936. This adjustment results in the value of the Simon common stock you are entitled to receive in the REIT Merger being capped at \$17.25 if the Closing Date Reference Price is greater than \$58.75. For example, if the Closing Date Reference Price is \$75.00, the

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Simon common stock exchange ratio would be reduced to 0.229987, which would result in you receiving \$17.25 of Simon common stock for each share of Chelsea common stock based on the Closing Date Reference Price. This would be in addition to the \$36.00 in cash and 0.3000 of a share of Simon 6% Convertible Preferred Stock that you would also be entitled to receive in exchange for each share of Chelsea common stock.

If the Closing Date Reference Price is lower than \$43.43, then instead of adjusting the Simon common stock exchange ratio, you will be entitled to an additional cash payment determined using the following formula:

$$(A-B) \times C$$

where:

"A" equals $0.2936 \times (\$43.43 / \text{the Closing Date Reference Price})$;

"B" equals 0.2936; and

"C" equals the Closing Date Reference Price.

This adjustment ensures that if the Closing Date Reference Price is lower than \$43.43, you will receive \$12.75 in value (consisting of Simon common stock and cash) for the portion of the merger consideration that originally was meant to consist of Simon common stock. For example, if the Closing Date Reference Price is \$30.00, you would receive 0.2936 of a share of Simon common stock (which at the Closing Date Reference Price would be worth \$8.80) plus \$3.95 in cash (for a total value of \$12.75 based on the Closing Date Reference Price) for each share of Chelsea common stock. This would be in addition to the \$36.00 in cash and 0.3000 of a share of Simon 6% Convertible Preferred Stock that you would also be entitled to receive in exchange for each share of Chelsea common stock.

If the Closing Date Reference Price is between \$43.43 and \$58.75, then there will be no adjustment to the consideration paid in the REIT Merger. As a result, the market value in such circumstance of the Simon common stock that you will receive in the REIT Merger will depend on the market price of the Simon common stock on the closing date of the REIT Merger. See "Risk Factors" beginning on page 36.

You will not receive any fractional shares of Simon common stock or Simon 6% Convertible Preferred Stock in the REIT Merger. After taking into account all shares of Chelsea common stock delivered by you, Simon will pay you:

cash in lieu of any fraction of a share of Simon common stock in an amount equal to such fraction multiplied by the average per share closing price of Simon common stock quoted on the New York Stock Exchange for the 10 trading days ending two days prior to the closing date of the REIT Merger; and

cash in lieu of any fraction of a share of Simon 6% Convertible Preferred Stock in an amount equal to such fraction multiplied by \$50.00.

In the merger agreement, Simon and Chelsea have agreed to coordinate the declaration and payment of dividends on Simon common stock and Chelsea common stock, including with respect to record dates and payment dates. However, this does not apply to Chelsea's regular second quarter 2004 dividend and Simon has consented to Chelsea not complying with this requirement with respect to coordinating Chelsea's regular third quarter dividend with Simon's quarterly dividend which was paid on August 31, 2004. See "Questions and Answers About the Mergers" for a description of the dividends anticipated to be paid by Chelsea and Simon to holders of Chelsea common stock and Simon common stock, respectively, for periods prior to the effective date of the REIT Merger.

After the effective date of the REIT Merger, former Chelsea stockholders who receive Simon common stock in the REIT Merger shall have the right to receive dividends from Simon on such shares of Simon common stock for the periods after the effective date to the extent they continue to hold such stock on the applicable record dates for such post-closing periods.

Treatment of Chelsea Series A Preferred Stock

In the REIT Merger, each share of Chelsea Series A Preferred Stock (other than shares owned by Chelsea, Simon or their direct or indirect wholly owned subsidiaries) will be converted into the right to receive one share of Simon 8³/₈% Preferred Stock, which will have substantially the same terms and rights as the Chelsea Series A Preferred Stock.

Immediately prior to the effective time of the REIT Merger, Chelsea shall pay any accumulated dividends on the Chelsea Series A Preferred Stock to the holders thereof for the period from the last preceding dividend payment date to but excluding the date of the closing of the REIT Merger. Dividends on the Simon 8³/₈% Preferred Stock will accrue from and after the date of the closing of the REIT Merger. The dividend payment dates for the Simon 8³/₈% Preferred Stock will be the last day of March, June, September and December of each year, commencing on the first such date to occur after the closing of the REIT Merger. On such date, Simon shall pay holders of Simon 8³/₈% Preferred Stock a dividend equal to the annual dividend rate of \$4.1875 per share for the period from and including the date of the closing of the REIT Merger to but excluding the date on which such initial dividend is payable based on a 360-day year of twelve 30-day months.

Treatment of Chelsea Stock Options

Each outstanding and unexercised option to purchase shares of Chelsea common stock granted under Chelsea's 1993 Stock Option Plan, as amended, and Chelsea's 2000 Stock Option Plan, as amended, whether or not exercisable or vested, will be converted at the effective time of the REIT Merger into a replacement option to purchase shares of Simon common stock on the same terms and conditions under which it was originally issued (but taking into account any changes thereto, including the acceleration thereof, provided for in, or required or permitted by, Chelsea's option plans, certain specified award agreements or other agreements or such option grant by reason of the merger agreement and the transactions contemplated thereby). Each new Simon option shall be exercisable for a number of shares of Simon common stock equal to (i) the number of shares of Chelsea common stock subject to the Chelsea option to which such new Simon option relates multiplied by (ii) the Option Exchange Ratio (as defined in "The Merger Agreement and Related Agreements Merger Agreement Chelsea Stock Options"), rounded to the nearest share. The per share exercise price of each new Simon option shall equal (A) the per share exercise price of the Chelsea option to which such new Simon option relates divided by (B) the Option Exchange Ratio, rounded to the nearest one-hundredth of a cent. All Chelsea stock options that have not vested under the Chelsea stock option plans will vest upon completion of the REIT Merger. Notwithstanding the foregoing, in the case of any Chelsea option to which Section 421 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), as of the effective time of the REIT Merger (after taking into account the effect of any accelerated vesting thereof) applies by reason of its qualification under Section 422 of the Internal Revenue Code, the exercise price, the number of shares subject to such option and the terms and conditions of exercise of such option shall be determined in a manner consistent with the requirements of Section 424(a) of the Internal Revenue Code.

Prior to the effective time of the REIT Merger and subject to the terms of the Chelsea option plans, Chelsea shall take all actions necessary and appropriate to allow each holder of a Chelsea option (whether or not exercisable or vested) to elect, in lieu of the treatment provided above, to convert each Chelsea option so held into the right to receive an amount of cash at the effective time of the REIT Merger equal to the product of (i) the excess, if any, of the per share dollar value of the REIT Merger Consideration on the closing date of the REIT Merger over the per share exercise price of such Chelsea option and (ii) the number of shares of Chelsea common stock subject to such Chelsea option (such payment to be net of all applicable withholding taxes). Under the provisions of their employment contracts entered into in connection with the execution of the merger agreement, Messrs. David C. Bloom, Leslie T. Chao, Thomas J. Davis and Michael J. Clarke are obligated to elect to receive cash for each of their Chelsea options.

The Partnership Merger and the Optional Partnership Exchange Offer

(Page 78)

As a condition to the closing of the REIT Merger, the Chelsea Operating Partnership must obtain the requisite approval of holders of a majority of its limited partnership interests for the merger of Simon Acquisition II, LLC with and into the Chelsea Operating Partnership. As discussed in "The Merger Agreement and Related Agreements Voting Agreements," holders of approximately 72% of the common units of the Chelsea Operating Partnership (consisting of certain directors and officers of Chelsea and their affiliates) have entered into voting agreements with Simon and the Simon Operating Partnership pursuant to which they have agreed to vote such common units in favor of the Partnership Merger if the REIT Merger is approved by the holders of Chelsea common stock. Such holders, who own 0.7% of the outstanding Chelsea common stock, have also agreed to vote their Chelsea common stock in favor of the REIT Merger.

The Chelsea Operating Partnership has agreed to redeem all of its outstanding Series B Cumulative Redeemable Preferred Units prior to the effective time of the Partnership Merger. As a result, the common units will be the only limited partnership interests in the Chelsea Operating Partnership entitled to vote on the Partnership Merger. The holders of common units that have entered into voting agreements have the right to vote sufficient limited partnership interests to approve the Partnership Merger without the affirmative vote of any other holders of limited partnership interests in the Chelsea Operating Partnership, thus ensuring approval of the Partnership Merger on behalf of the Chelsea Operating Partnership.

Subject to certain limitations contained in the voting agreements, the holders of common units in the Chelsea Operating Partnership have the right to convert such units into Chelsea common stock at any time prior to the REIT Merger, and any such shares of Chelsea common stock shall then be converted into the right to receive the REIT Merger Consideration in the REIT Merger.

In the Partnership Merger, each common unit of the Chelsea Operating Partnership (excluding common units owned by Chelsea, the Chelsea Operating Partnership, Simon, the Simon Operating Partnership or their direct or indirect wholly owned subsidiaries, which shall be cancelled in the Partnership Merger (other than any common units acquired by the Simon Operating Partnership in the Optional Partnership Exchange Offer, which shall remain outstanding after the Partnership Merger)) shall be converted into the right to receive 0.6459 of a common partnership interest in the Simon Operating Partnership and 0.6600 of a preferred partnership interest in the Simon Operating Partnership.

The common partnership interests in the Simon Operating Partnership to be issued in the Partnership Merger will be exchangeable, at the request of the holder of such interests, for cash or, at Simon's option, for shares of Simon common stock on a one-for-one basis. The preferred partnership interests in the Simon Operating Partnership to be issued in the Partnership Merger will have the same economic terms as the Simon 6% Convertible Preferred Stock except that they shall be, at the request of the holder of such interests, (1) convertible into common partnership interests in the Simon Operating Partnership on the same terms as the Simon 6% Convertible Preferred Stock shall be convertible into Simon common stock and (2) exchangeable for cash or, at Simon's option, for shares of Simon 6% Convertible Preferred Stock on a one-for-one basis.

In the event that the Closing Date Reference Price is greater than \$58.75, then the common partnership interest exchange ratio shall be adjusted to equal 0.6459 multiplied by a fraction, the numerator of which will be \$58.75, and the denominator of which will be the Closing Date Reference Price, and in the event that the Closing Date Reference Price is less than \$43.43, then the common partnership interest exchange ratio shall be adjusted to equal 0.6459 multiplied by a fraction, the numerator of which will be \$43.43, and the denominator of which will be the Closing Date Reference Price.

The Partnership Merger will become effective immediately after the closing of the REIT Merger, with the Chelsea Operating Partnership as the surviving entity. Immediately after consummation of the Partnership Merger, the partners of the Chelsea Operating Partnership will be Chelsea (which at that