

KONOVER PROPERTY TRUST INC
Form PRER14A
October 23, 2002
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SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

KONOVER PROPERTY TRUST, INC.

(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - 1) Title of each class of securities to which transaction applies: common stock.
 - 2) Aggregate number of securities to which transaction applies: 31,915,014 shares of common stock.
 - 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): In accordance with Rule 0-11(c), the fee was calculated to be one-fiftieth of one percent of the proposed cash payment or of the value of the securities and other property to be distributed to the stockholders of Konover Property Trust, Inc. and the holders of unexercised options with exercise prices of less than the consideration per share to be paid to the holders of common stock.
 - 4) Proposed maximum aggregate value of transaction: \$32,806,136 (calculated on the basis of (1) 15,299,092 outstanding shares of common stock that will receive the merger consideration multiplied by the transaction price of \$2.10, plus (2) the product of (A) 448,403 shares which are subject to options to purchase shares with an exercise price of less than \$2.10 per share and (B) the difference between \$2.10 per share and the exercise price of such options).
 - 5) Total fee paid: \$7,560
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
 - 1) Amount Previously Paid:
 - 2) Form, Schedule or Registration Statement No.:
 - 3) Filing Party:
 - 4) Date Filed:

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KONOVER PROPERTY TRUST, INC.

October 21, 2002

Dear Stockholder:

On behalf of our board of directors, I cordially invite you to attend a special meeting of stockholders of Konover Property Trust, Inc. to be held at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York.

At the special meeting, we will ask you to consider and vote upon a proposal to approve a merger between PSCO Acquisition Corp. and Konover Property Trust, Inc., and the merger agreement governing the merger. PSCO Acquisition Corp. is a newly formed Maryland corporation. It is owned by Prometheus Southeast Retail Trust, a Maryland real estate investment trust and an owner of approximately 66% of our common stock, and Kimkon Inc., a Delaware corporation and an indirect wholly owned subsidiary of Kimco Realty Corporation (NYSE: KIM), a Maryland corporation. Under the merger agreement, PSCO Acquisition Corp. will be merged with Konover, with Konover surviving the merger. At the special meeting, we will also ask you to consider and vote upon a proposal to approve certain amendments to our charter contemplated by the merger agreement. None of these amendments will become effective unless the merger proposal is approved and the merger is consummated. If the proposals are approved, you will be entitled to receive \$2.10 in cash for each share of Konover common stock that you hold. Following the merger, Konover will continue its operations as a privately held company under the name Kimsouth Realty Inc. More detailed information about the proposals is included in the accompanying proxy statement. Copies of the merger agreement and an amendment to the merger agreement are attached as Appendices A1 and A2 to the proxy statement. You should read carefully the accompanying material.

*The board of directors, after careful consideration and based on various factors, including the unanimous recommendation of a special committee of the board, has determined that the merger, merger agreement, and charter amendments are advisable and in the best interests of Konover and are fair to Konover and our unaffiliated stockholders. The board of directors unanimously approved the merger, merger agreement, and charter amendments and recommends that you vote **For** approval of each of the proposals.*

To ensure that your shares are represented at the meeting, please complete, sign and date the enclosed proxy card and return it in the enclosed postage prepaid envelope as soon as possible. This will allow your shares to be represented at the meeting. Returning your proxy card will not prevent you from voting in person, but it will ensure that your vote will be counted if you are unable to attend the meeting. The failure to submit a proxy card or vote at the meeting will have the same effect as a vote against the proposals.

Sincerely,
J. Michael Maloney
Chief Executive Officer

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THIS TRANSACTION, PASSED UPON THE MERITS OR FAIRNESS OF THIS TRANSACTION, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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KONOVER PROPERTY TRUST, INC.

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held on November 22, 2002**

You are cordially invited to attend the special meeting of stockholders of Konover Property Trust, Inc. to be held on Friday, November 22, 2002, at 9:00 a.m., at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York for the following purposes:

1. To consider and vote upon a proposal to approve a merger of PSCO Acquisition Corp. (**PSCO**) and Konover, and the Agreement and Plan of Merger, dated June 23, 2002, as amended on July 26, 2002 between PSCO and Konover. The merger will result in:

PSCO merging with and into Konover, with Konover surviving the merger. Prometheus Southeast Retail Trust, which currently owns approximately 66% of our outstanding common stock, and Kimkon Inc., an indirect wholly owned subsidiary of Kimco Realty Corporation (NYSE: KIM), will own all of the outstanding shares of Konover common stock after the merger is completed. Additionally, immediately before the merger, PSCO will issue shares of redeemable preferred stock to approximately 100 individuals in order to ensure that Konover maintains its REIT status after the merger. In the merger, PSCO's newly issued shares of redeemable preferred stock will be converted into shares of a newly created series of redeemable preferred stock; and

Each share of Konover common stock outstanding immediately before the effective time of the merger, other than 16,615,922 shares of Konover common stock that Prometheus will contribute to PSCO immediately before the merger, being converted into the right to receive \$2.10 in cash, which may be reduced for persons subject to applicable withholding taxes.

2. To consider and vote upon a proposal to adopt certain amendments to our charter in the manner contemplated by the merger agreement, which amendments are described in the proxy statement.
3. To transact such other business as may properly come before such meeting or any postponements or adjournments of the meeting.

Only common stockholders of record at the close of business on September 23, 2002 will be entitled to vote at the meeting or any adjournments.

Whether or not you expect to attend the meeting, please complete, date, and sign the enclosed proxy card and mail it promptly in the enclosed envelope in order to ensure representation of your shares. No postage need be affixed if you mail the proxy card in the United States.

By Order of the Board of Directors

Marcus B. Liles, III

Vice President, General Counsel and Secretary

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Konover Property Trust, Inc.
3434 Kildaire Farm Road, Suite 200
Raleigh, North Carolina 27606

Proxy Statement
for
Special Meeting of Stockholders

To Be Held on November 22, 2002

This proxy statement is furnished in connection with the solicitation by the board of directors of Konover Property Trust, Inc. (Konover, we or us) of proxies for use at the special meeting of stockholders to be held on Friday, November 22, 2002, at 9:00 a.m., local time, at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York.

This proxy statement and the accompanying proxy were first mailed to our stockholders on or about October 24, 2002.

As of September 23, 2002, the record date, we had 31,915,014 shares of our common stock, par value \$0.01 per share, outstanding. Only common stockholders of record at the close of business on the record date are entitled to vote at the meeting. Each stockholder will be entitled to one vote for each share of common stock held by such stockholder on the record date. At the meeting, our stockholders will be asked to approve (1) the merger of PSCO and Konover and the merger agreement governing the merger, and (2) certain amendments to our charter contemplated by the merger agreement. The affirmative vote of a majority of the votes entitled to be cast at the meeting is required to approve the merger proposal. The charter proposal is contingent upon the approval of the merger proposal. The affirmative vote of a majority of the votes entitled to be cast at the meeting is required to approve the charter proposal, except for certain additional charter amendments principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock. The additional charter amendments require the affirmative vote on the charter proposal of at least two-thirds of the votes entitled to be cast at the meeting. Thus, if holders of at least two-thirds of the votes entitled to be cast approve the charter proposal and the merger is completed, the surviving corporation's charter will contain the additional charter amendments. However, approval of the additional charter amendments is not a condition to completing the merger. We have included, as Appendices A1 and A2 to this proxy statement, the merger agreement and an amendment to the merger agreement. Two alternate forms of the surviving corporation's charter are attached as Exhibits B-1 and B-2 to the amendment to the merger agreement. The form of charter attached as Exhibit B-1 contains all of the proposed charter amendments, including those requiring the affirmative vote of two-thirds of the votes entitled to be cast at the meeting. The form of charter attached as Exhibit B-2 contains only those proposed charter amendments that require the affirmative vote of a majority but less than two-thirds of the votes entitled to be cast at the meeting. The alternate charter forms are substantially identical, other than those amendments requiring a two-thirds vote. Prometheus Southeast Retail Trust, which currently owns approximately 66% of our common stock, has entered into a voting agreement with us and Kimkon Inc. The voting agreement obligates Prometheus to vote in favor of the merger proposal and the charter proposal.

Our board of directors has, after taking into account various factors as described in this proxy statement, including the unanimous recommendation of a special committee of the board of directors, unanimously approved the merger, the merger agreement, and the charter amendments, determining them to be advisable and in the best interests of Konover and fair to Konover and our unaffiliated stockholders. The board of directors recommends that you vote **For** approval of each of the proposals.

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To ensure that your shares are represented at the special meeting, please complete, sign, and date the enclosed proxy card and return it in the enclosed postage prepaid envelope. If you complete, date, sign, and return your proxy card without indicating how you wish to vote, your proxy will be counted as a vote for both the merger proposal and the charter proposal. If you fail to return your proxy card and fail to vote at the special meeting, the effect will be the same as a vote against the proposals. Returning the proxy card does not deprive you of your right to attend the special meeting and vote your shares in person.

We will pay the expense of soliciting proxies. Proxies will be solicited by mail and may also be solicited by telephone calls or personal calls by our officers, directors, or employees, none of whom will be specially compensated for soliciting proxies. We estimate the total expenses of soliciting proxies, including printing and postage, to be approximately \$60,000.

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<u>APPENDIX A1</u>	Agreement and Plan of Merger, dated as of June 23, 2002, by and between PSCO Acquisition Corp. and Konover Property Trust, Inc.
<u>APPENDIX A2</u>	Amendment No. 1 to the Agreement and Plan of Merger, dated as of July 26, 2002, by and between PSCO Acquisition Corp. and Konover Property Trust, Inc.
<u>APPENDIX B</u>	Voting Agreement, dated as of June 23, 2002, by and between Prometheus Southeast Retail Trust, Konover Property Trust, Inc., and Kimkon Inc.

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<u>APPENDIX C</u>	Supplemental Voting and Tender Agreement, dated as of June 23, 2002, by and between Prometheus Southeast Retail Trust and Konover Property Trust, Inc.
<u>APPENDIX D1</u>	Co-Investment Agreement, dated as of June 23, 2002, by and among Prometheus Southeast Retail Trust, Kimkon Inc., PSCO Acquisition Corp., LF Strategic Realty Investors II L.P., LFSRI II CADIM Alternative Partnership L.P., LFSRI II Alternative Partnership L.P., and Kimco Realty Corporation.
<u>APPENDIX D2</u>	Amendment No. 1 to the Co-Investment Agreement, dated as of July 26, 2002, by and among Prometheus Southeast Retail Trust, Kimkon Inc., PSCO Acquisition Corp., LF Strategic Realty Investors II L.P., LFSRI II CADIM Alternative Partnership L.P., LFSRI II Alternative Partnership L.P., and Kimco Realty Corporation.
<u>APPENDIX E</u>	Opinion of Credit Suisse First Boston Corporation, dated June 23, 2002.
<u>APPENDIX F</u>	Information Relating to the Directors and Executive Officers of the Prometheus Parties.
<u>APPENDIX G</u>	Information Relating to Kimco, Kimco Realty Services, Kimkon, and the Directors and Executive Officers of Kimco.
<u>APPENDIX H</u>	Information Relating to the Directors and Executive Officers of PSCO Acquisition Corp.
<u>APPENDIX I</u>	Information Relating to the Directors and Executive Officers of Konover Property Trust, Inc.
<u>APPENDIX J</u>	Annual Report on Form 10-K for the Fiscal Year ended December 31, 2001.
<u>APPENDIX K</u>	Quarterly Report on Form 10-Q for the Fiscal Quarter ended March 31, 2002.
<u>APPENDIX L</u>	Quarterly Report on Form 10-Q for the Fiscal Quarter ended June 30, 2002.

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Summary Term Sheet

The following summary briefly describes the material terms of the proposed acquisition of Konover by PSCO Acquisition Corp., a newly formed Maryland corporation (**PSCO**). PSCO is owned by Prometheus Southeast Retail Trust (**Prometheus**), a Maryland real estate investment trust that currently owns approximately 66% of our common stock, and Kimkon Inc. (**Kimkon**), a Delaware corporation and an indirect wholly owned subsidiary of Kimco Realty Corporation (NYSE: KIM), a Maryland corporation (**Kimco**). While this summary describes the material terms that you should consider when evaluating the merger proposal and the charter proposal you will vote on at the special meeting, the information throughout this proxy statement contains a more detailed description of the proposals. You should read carefully the proxy statement in its entirety before voting. We have included page references to direct you to more complete descriptions of the topics described in this summary term sheet.

PSCO: The buyer is PSCO, a newly formed Maryland corporation. As of the date of this proxy statement, PSCO is wholly owned by Prometheus and Kimkon. See The Parties Involved in the Merger beginning on page 34.

Transaction Structure:

OP Transfer: Prior to the closing date of the merger of PSCO and Konover, we will cause our wholly owned subsidiary, KPT Properties Holding Corp., to transfer (the **OP Transfer**) to Konover substantially all of the partnership interests (**OP Units**) that KPT Properties Holding Corp. currently holds in KPT Properties, L.P. (the **Operating Partnership**), the limited partnership through which we conduct substantially all of our operations.

OP Merger: On the closing date of the merger of PSCO and Konover, after the OP Transfer but before the consummation of the merger, we will cause KPT Acquisition, L.P., a newly formed, wholly owned Delaware limited partnership, to be merged (the **OP Merger**) with and into the Operating Partnership, with the Operating Partnership being the surviving entity. Pursuant to the OP Merger, each OP Unit in the Operating Partnership, other than those we directly or indirectly own, will be converted into the right to receive a cash payment in an amount equal to the merger consideration to be paid to our common stockholders in the merger of PSCO and Konover.

OP Distribution: Immediately after the OP Merger but before the consummation of the merger of PSCO and Konover, we will cause the Operating Partnership to distribute \$12,000,000.00 of cash to Konover (the **OP Distribution**) which will be used to pay a portion of the consideration payable in the merger of PSCO and Konover.

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Contribution by Prometheus to PSCO:	On the closing date of the merger of PSCO and Konover, but before it is consummated, Prometheus, in exchange for additional PSCO equity interests, will contribute to PSCO 16,615,922 shares of Konover common stock and all of Prometheus' rights and obligations under the contingent value right agreement between Prometheus and Konover. These 16,615,922 shares will be canceled at the effective time of the merger without any payment or other consideration. See The Merger and Related Agreements Co-Investment Agreement beginning on page 105.
Contribution by Kimkon to PSCO:	On the closing date of the merger of PSCO and Konover, but before it is consummated, Kimkon, in exchange for additional PSCO equity interests, will contribute to PSCO approximately \$35.6 million, which cash will be used to pay a portion of the merger consideration. See The Merger and Related Agreements Co-Investment Agreement beginning on page 105.
Issuance of Redeemable Preferred Stock by PSCO:	On the closing date of the merger of PSCO and Konover, but before it is consummated, PSCO will issue up to 150 shares of redeemable preferred stock to approximately 100 individuals in order to ensure that Konover maintains its REIT status after the merger. Only individuals who are accredited investors as that term is defined in Rule 501(a) of the Securities Act of 1933, as amended, will be entitled to receive the shares of PSCO redeemable preferred stock. PSCO has not yet determined the individuals to whom it will issue the shares of PSCO redeemable preferred stock, however, it is expected that approximately fifty shares will be issued to certain individuals to be selected by Prometheus and the remainder to certain individuals to be selected by Kimco. In the merger, each share of PSCO redeemable preferred stock will be converted into one share of a newly created series of redeemable preferred stock.
Merger:	At the effective time of the merger, PSCO will be merged with Konover, with Konover as the surviving corporation. Shares of PSCO capital stock will be converted into shares of Konover capital stock on a one-for-one basis.
Stockholder Vote:	<p>We are asking you to consider and vote upon the following two proposals:</p> <p>Proposal one involves approving the Agreement and Plan of Merger, dated June 23, 2002, as amended on July 26, 2002, between Konover and PSCO, and the merger contemplated by the merger agreement. We refer to this proposal as the merger proposal, or sometimes as proposal one, throughout this proxy statement. The affirmative vote of a majority of the votes entitled to be cast at the meeting is required to approve this proposal. The Agreement and Plan of Merger and amendment no. 1 to this agreement are attached as Appendices A1 and A2 to this proxy statement.</p> <p>Proposal two involves approving certain amendments to our charter in the manner contemplated by the merger agreement. We refer to this proposal as the charter proposal or proposal two throughout this proxy statement, and sometimes refer to proposal one and proposal two as the proposals throughout the proxy statement. Approval of most of the amendments contained in the charter proposal requires the affirmative vote of a majority of the votes entitled to be cast at the meeting. However, certain charter amendments contained in the charter proposal principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock require the approval of two-thirds of the votes entitled to be cast. Thus, if holders of at least two-thirds of the votes entitled to be cast approve proposal two, the charter of the surviving corporation will contain those additional charter amendments. The alternate charter forms,</p>

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which are attached as Exhibits B-1 and B-2 to amendment no. 1 to the merger agreement, are substantially identical, other than those amendments requiring a two-thirds vote. See Proposal Regarding Charter Amendments beginning on page 111 for a description of the material differences between the forms of the surviving corporation's charter.

If proposal one is not approved by the requisite vote, then proposal two will not be deemed to have been approved, regardless of the votes cast to approve proposal two.

Approval of the charter amendments in proposal two, other than the amendments requiring a two-thirds vote, is a condition to completion of the merger. Approval of the charter amendments in proposal two that require a two-thirds vote is not a condition to completion of the merger.

If the common stockholders wish to approve the merger, they should also approve the charter proposal.

As of the record date, Prometheus owned 21,052,631 shares of our common stock, which is approximately 66%, and has entered into an agreement to vote in favor of the merger proposal and charter proposal. Assuming Prometheus votes in favor of the merger proposal and the charter proposal, the merger, merger agreement and the charter amendments not requiring a two-thirds vote will be approved. Accordingly, the vote of our unaffiliated stockholders is not needed to approve the merger, merger agreement or the charter amendments requiring a majority vote, and our unaffiliated stockholders do not have the ability to defeat the merger proposal or the charter proposal, other than those charter amendments contained in the charter proposal which require a two-thirds vote. See The Special Meeting beginning on page 32 and The Merger and Related Agreements Voting Agreement beginning on page 108.

Payment:

Upon completion of the merger, you will be entitled to receive \$2.10 in cash, without interest, for each share of Konover common stock that you own. You will not own any shares of Konover common stock or any other interest in Konover after the merger is completed. Each outstanding option to purchase shares of Konover common stock will be canceled at the effective time of the merger, and each option with an exercise price of less than \$2.10 per share will be converted into the right to receive a cash payment, without interest, equal to the difference between \$2.10 and the exercise price of the option, multiplied by the number of shares of common stock subject to the option. Options with an exercise price equal to or greater than \$2.10 per share, however, will be canceled at the effective time of the merger without any payment or other consideration. See The Merger and Related Agreements Conversion of Stock and Options beginning on page 94.

Dividends:

Under the terms of the merger agreement, we are not permitted to declare dividends before the merger closes, unless we need to do so in order to preserve our REIT status. We currently do not expect that will be necessary. After the merger is completed, you will not own any stock of Konover and, therefore, will not receive any dividends for any period following the merger. See Special Factors Effects of the Merger beginning on page 83.

Appraisal Rights:

Under Maryland law, since our common stock is listed on the New York Stock Exchange, our common stockholders do not have the right to receive the appraised value of their shares in connection with the merger. If you do not vote in favor of the proposals and the merger takes place anyway, you will be bound by

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the terms of the merger agreement and will receive \$2.10 per share (less applicable withholding taxes, if any) for each share of Konover common stock you own at the time of the merger.

Special Committee: The special committee is a committee of our board of directors that, in consultation with its own legal and financial advisors, evaluated and negotiated the merger, including the terms of the merger agreement with PSCO. The special committee consists solely of directors who are not officers or employees of Konover or of any affiliate of Konover (including Prometheus) and who have no financial interest in the merger different from Konover stockholders generally. The members of the special committee are William D. Eberle, Carol R. Goldberg and L. Glenn Orr, Jr.

Fairness of the Merger: The special committee and our board of directors, after careful consideration and based on various factors, have each determined that the merger agreement, the merger, and the charter amendments are advisable and in the best interests of Konover and fair to Konover and our unaffiliated stockholders. Our board of directors unanimously recommends that you vote **For** the merger proposal and the charter proposal. After careful consideration and based on various factors, PSCO and the parties described as the Prometheus Parties on page 13, have each determined that the merger is fair to our unaffiliated stockholders. The special committee received an oral opinion, confirmed by delivery of a written opinion dated June 23, 2002, from its financial advisor, Credit Suisse First Boston Corporation (**Credit Suisse First Boston**) to the effect that, as of the date of the opinion and based on and subject to matters described in the opinion, the cash consideration to be received in the merger was fair, from a financial point of view, to our common stockholders other than PSCO and its affiliates. The full text of Credit Suisse First Boston's written opinion is attached to this proxy statement as Appendix E. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered, and limitations on the review undertaken. **Credit Suisse First Boston's opinion is addressed to the special committee and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the merger.** See Special Factors Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors beginning on page 63 and Opinion of the Special Committee's Financial Advisor beginning on page 69.

Tax Consequences: Generally, the merger will be taxable for U.S. federal income tax purposes to Konover stockholders. You will recognize taxable gain or loss in the amount of the difference between \$2.10 and your adjusted tax basis for each share of Konover common stock that you own. See Special Factors Material Federal Income Tax Considerations beginning on page 88.

Conditions: The merger is subject to approval by the holders of a majority of the outstanding shares of our common stock. Approval of the merger proposal is a condition to the effectiveness of the charter amendments contained in the charter proposal. Approval of the charter proposal by the holders of a majority of the outstanding shares of our common stock is a condition to completing the merger. However, approval of the additional charter amendments which require a two-thirds vote is not a condition to completing the merger. Other conditions required to complete the merger include that no court or governmental entity has imposed an order or injunction prohibiting the merger, and that no event has occurred that has resulted in or would reasonably be likely to result in a material adverse effect on Konover.

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See The Merger and Related Agreements Conditions to the Merger beginning on page 102.

Your Vote:

Only our common stockholders of record as of the close of business on September 23, 2002 may vote at the meeting. If you mail your completed, signed and dated proxy card in the enclosed envelope as soon as possible, your shares will be voted at the meeting even if you are unable to attend the meeting. If your shares are held in street name, you should give your broker or nominee instructions on how to vote. You may change your vote at any time before the vote is tabulated at the meeting. For shares held directly in your name, you may do this by sending a new proxy or a written revocation to our secretary or by attending the meeting and voting there. For shares held in street name, you may change your vote only by giving new voting instructions to your broker or nominee. Failure to submit a proxy or vote at the meeting will have the same effect as a vote against the merger proposal and the charter proposal. Do not send your stock certificates now. Hold your certificates until you receive written instructions from us that will tell you how to exchange your certificates for \$2.10 per share in cash, less any applicable withholding taxes. If you held your shares on the record date but transfer those shares after the record date but before the meeting, you will retain your right to vote but not the right to receive the merger consideration.

Interests of Certain Persons in the Merger:

In considering the recommendation of the special committee and our board of directors, you should be aware that some of our directors and members of our management team may have interests in the merger that are different from, or in addition to, yours, which interests may create potential conflicts of interest. See Special Factors Interests of Directors and Officers in the Merger beginning on page 78. These interests include:

On the record date, Prometheus, which is one of the stockholders of PSCO, owned approximately 66% of our common stock. One of our directors, Mark S. Ticotin, is a director of PSCO and a Managing Principal of Lazard Freres Real Estate Investors L.L.C., the general partner of the investment funds that indirectly own Prometheus. Under SEC rules, as a result of his position with Lazard Freres Real Estate Investors L.L.C., Mr. Ticotin may be deemed to beneficially own 66% of our outstanding common stock. Mr. Ticotin disclaims any beneficial ownership he may be deemed to have of any shares of our common stock. See Information Concerning Konover Security Ownership of Certain Beneficial Owners and Konover Management beginning on page 125.

Our board of directors, executive officers, and their affiliates, excluding Prometheus and our director Mr. Ticotin, together owned less than 40,000 shares of our common stock (including approximately 31,000 shares of our common stock issuable upon redemption of OP Units in the Operating Partnership held by our director Simon Konover and his affiliate), or less than 1%, on the record date.

Several key employees and officers are parties to employment or severance agreements pursuant to which they will receive a severance package upon their termination in connection with certain events, such as the merger.

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As of the record date, our executive officers collectively held 110,008 options with exercise prices below \$2.10, with an aggregate payment pursuant to the merger of approximately \$176,000.

Under the merger agreement, the surviving corporation will indemnify each present and former director, officer and employee of Konover against costs and expenses relating to such person's service to Konover.

Messrs. Ross, Ticotin and Zobler, who are directors of Konover, are affiliated with the Prometheus Parties.

After the Merger:

Upon completion of the merger, Prometheus and Kimkon will own 100% of our common stock. In order to maintain our REIT status following the merger, PSCO will issue up to 150 shares of its redeemable preferred stock to approximately 100 individuals before the merger. In the merger, these shares of redeemable preferred stock will be converted into shares of our newly created Series B redeemable preferred stock. Our existing common stockholders, however, will cease to have ownership interests in us or rights as Konover stockholders. As a result, if the merger is completed, you will not participate in any future earnings, losses, growth or decline of Konover. After the merger, Konover will no longer be a public company and our common stock will no longer be listed or traded on the New York Stock Exchange. See "Special Factors - Effects of the Merger" beginning on page 83.

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Questions and Answers About the Merger Proposal and the Charter Proposal

Q: What am I being asked to vote upon?

A: We are asking you to consider and vote upon a proposal to approve the merger agreement and the merger. Approval by the holders of a majority of our outstanding shares of common stock is required to approve the merger proposal. We are also asking you to consider and vote upon a proposal to approve certain charter amendments in the manner contemplated by the merger agreement. Most of these charter amendments require approval by the holders of a majority of our outstanding shares of common stock. Certain additional charter amendments, principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock, require approval by the holders of two-thirds of our outstanding common stock. Thus, if holders of at least two-thirds of the votes entitled to be cast approve proposal two, the charter of the surviving corporation will contain all the proposed charter amendments, including the additional charter amendments. However, completing the merger is not conditioned upon approval of those additional charter amendments. Thus, if a majority of the votes entitled to be cast vote to approve the merger proposal and the charter proposal, the merger will occur and PSCO and Konover will merge, with Konover surviving the merger. Upon completion of the merger, Konover will no longer be a public company, and you will no longer own any Konover common stock.

Q: How much will I receive for my shares of Konover common stock in the merger?

A: If the merger is completed, you will receive \$2.10 per share in cash (less applicable withholding taxes, if any) for each share of Konover common stock you own at the time of the merger, and you will have no interest in the surviving corporation. See The Merger and Related Agreements Conversion of Stock and Options beginning on page 94.

Q: What if I have options to purchase shares of Konover common stock?

A: If you hold options to purchase shares of our common stock at an exercise price of less than \$2.10 per share, you will receive a cash payment equal to the difference between \$2.10 and the exercise price multiplied by the number of shares subject to your options. If your options exercise price is \$2.10 or more, your options will be canceled in the merger without any payment or other consideration. See The Merger and Related Agreements Conversion of Stock and Options beginning on page 94.

Q: Will I have to pay taxes on the consideration I receive in the merger?

A: If you hold shares of our common stock, the receipt of cash in the merger will generally be a taxable transaction to you in the same way as if you sold your shares for \$2.10 per share in cash. See Special Factors Material Federal Income Tax Considerations beginning on page 88. If you receive payment for your options as described above, the payment generally will be treated as ordinary income.

Q: What will happen to Konover and our stockholders in the merger?

A: As a result of the merger:

Konover, the surviving corporation in the merger, will become owned entirely by Prometheus and Kimkon (with the exception of shares of a newly created series of redeemable preferred stock that will be issued to holders of PSCO's redeemable preferred stock in connection with maintaining Konover's REIT status after the merger);

Konover common stockholders, except for PSCO, will receive cash in exchange for their shares and will no longer have any interest in the future earnings, losses, growth or decline of Konover. Prometheus will

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contribute 16,615,922 shares of Konover common stock to PSCO before the merger. These 16,615,922 shares will be canceled in the merger;

Konover will no longer be a public company; and

Konover's common stock will no longer be listed or traded on the New York Stock Exchange.

See The Merger and Related Agreements beginning on page 92 and Special Factors Effects of the Merger beginning on page 83.

Q: Will I receive any dividends between now and the merger?

A: In an effort to conserve cash until we determined our ultimate strategy, our board of directors ceased declaring dividends in the second quarter of 2001. The merger agreement does not permit us to declare any dividends before the merger closes, unless we need to do so in order to preserve our REIT status. However, we currently do not expect that will be necessary. Once the merger is completed, you will no longer own any stock of Konover and, therefore, will not receive any dividends for any period following the merger. See Special Factors Effects of the Merger beginning on page 83.

Q: How does Konover's board of directors recommend I vote?

A: Our board of directors, after careful consideration and based on various factors, including the unanimous recommendation of the special committee, has determined that the merger, merger agreement, and charter amendments are advisable and in the best interests of Konover and are fair to Konover and our unaffiliated stockholders. Accordingly, our board of directors unanimously approved the merger, the merger agreement, and the charter amendments. Our board of directors recommends that you vote to approve the merger proposal and the charter proposal. As of the record date, Prometheus owned approximately 66% of our common stock and has entered into a voting agreement obligating it to vote **For** the merger proposal and the charter proposal. Our board of directors, executive officers, and their affiliates, excluding Prometheus and our director Mark S. Ticotin, who is a Managing Principal of Lazard Freres Real Estate Investors L.L.C., the general partner of the investment funds that indirectly own Prometheus, together owned less than 40,000 shares of our common stock (including approximately 31,000 shares of our common stock issuable upon redemption of OP Units in the Operating Partnership held by our director Simon Konover and his affiliate), or less than one percent, as of the record date. Our board of directors, executive officers, and their affiliates, including Mr. Ticotin and Prometheus, owned approximately 66% of our outstanding common stock as of the record date. See Special Factors Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors beginning on page 63.

Q: Are there any conditions to completing the merger?

A: In addition to obtaining stockholder approval, which is assured pursuant to the Prometheus voting agreement noted above, the merger is also subject to the following conditions:

Both Prometheus and Kimkon must have made certain contributions to PSCO in accordance with a co-investment agreement among Prometheus and its affiliates, Kimkon, and Kimco.

Our subsidiary, KPT Properties Holding Corp., must have transferred to Konover substantially all of its OP Units in the Operating Partnership.

The Operating Partnership must have merged with a newly formed limited partnership owned by Konover. In this, the OP Merger, the Operating Partnership will be the surviving entity and the Operating Partnership's limited partners, other than Konover and our subsidiaries, will receive a cash payment per OP Unit equal to the \$2.10 per share payment our common stockholders (other than PSCO) will receive in the merger of PSCO and Konover.

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Following the OP Merger, the Operating Partnership must make a \$12.0 million distribution to Konover. This OP Distribution will be used in part to pay the merger consideration to you.

Konover must deliver to PSCO letters of resignation from each member of our board of directors, other than from Messrs. Ross, Ticotin, and Zobler (the directors who were nominated by Prometheus), for such resignation to be effective as of the closing.

Other customary closing conditions.

See The Merger and Related Agreements Conditions to the Merger beginning on page 102.

Q: What vote is required to approve the merger?

A: Approval of the merger proposal requires the affirmative vote of the holders of a majority of the outstanding shares of Konover common stock on the record date, or 15,957,508 shares. Also, a condition to completing the merger is the approval of the charter proposal by the holders of a majority of the outstanding shares of Konover common stock on the record date. Abstentions will have the same effect as a vote against the merger proposal and the charter proposal. In connection with the execution of the merger agreement, Prometheus entered into a voting agreement with Konover and Kimkon. The voting agreement obligates Prometheus to vote in favor of approving the merger proposal and the charter proposal. As of the record date, Prometheus owned 21,052,631 shares of Konover common stock, representing approximately 66% of the outstanding voting power of Konover. See The Special Meeting Quorum and Vote Required beginning on page 32.

Q: What vote is required to approve the amendments to the charter?

A: The form of the charter of the surviving corporation will depend on whether the holders of at least two-thirds or only a majority of our outstanding shares of common stock vote to approve the charter proposal. Most of the charter amendments must be approved by the affirmative vote of the holders of a majority of our outstanding shares of common stock on the record date, or 15,957,508 shares. Approval of these charter amendments is a condition to completing the merger. Certain additional charter amendments that relate principally to the ability of our board of directors to classify or reclassify unissued stock and to stock transfer restrictions must be approved by the holders of two-thirds of our outstanding shares of common stock on the record date, or 21,276,676. Approval of these additional charter amendments is not a condition to completing the merger. Abstentions will have the same effect as a vote against the charter proposal. As noted above, the voting agreement obligates Prometheus, which owned 21,052,631 shares of Konover common stock on the record date, representing approximately 66% of the outstanding voting power of Konover, to vote its shares in favor of approving the charter proposal and the merger proposal. See The Special Meeting Quorum and Vote Required beginning on page 32, The Merger and Related Agreements The Merger Amendment to Charter beginning on page 93, and Proposal Regarding Charter Amendments beginning on page 111.

Q: If I will not have a continuing interest in Konover after the merger, why are you asking me to vote on the charter amendments?

A: We are incorporated in Maryland. Maryland law requires that charter amendments be approved by common stockholders. As of the record date, you are a common stockholder.

Q: Can the stockholders other than Prometheus defeat the merger proposal?

A: No. As noted above, Prometheus has entered into a voting agreement obligating it to vote in favor of the merger proposal and the charter proposal. Assuming Prometheus votes in favor of the merger proposal and the charter proposal, the merger and the merger agreement will be approved.

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Q: Can the stockholders other than Prometheus defeat the charter proposal?

A: The stockholders other than Prometheus cannot defeat the charter amendments that require only a majority of our outstanding shares of common stock. As noted above, Prometheus has entered into a voting agreement obligating it to vote in favor of the charter proposal and the merger proposal. Assuming Prometheus votes in favor of this proposal and the merger proposal, the charter amendments not requiring a two-thirds vote will be approved. However, Prometheus alone does not hold two-thirds of our outstanding shares of common stock, and therefore, in order to approve the charter amendments requiring a two-thirds vote, at least some of our unaffiliated stockholders also need to vote in favor of the charter proposal.

Q: Can the charter proposal be approved if the merger proposal is not approved?

A: No. If the merger proposal is not approved, the charter amendments will not become effective, even if the charter proposal received the affirmative vote of a majority or two-thirds of our outstanding common stock.

Q: Can the merger proposal be approved if the charter proposal is not approved?

A: No. If the charter proposal is not approved by at least a majority of the holders of our outstanding common stock, the merger will not become effective, even if the merger proposal received the affirmative vote of a majority of our outstanding common stock. However, the merger proposal can be approved even if the charter proposal does not receive the affirmative vote of two-thirds of our outstanding common stock, provided that the charter proposal receives the affirmative vote of at least a majority of our outstanding common stock.

Q: What rights do I have if I oppose either the merger proposal or the charter proposal?

A: You can vote against the merger proposal by indicating a vote against such proposal on your proxy card and signing and mailing your proxy card, or by voting against the proposal in person at the meeting. You can vote against the charter proposal by indicating a vote against such proposal on your proxy card and signing and mailing your proxy card, or by voting against the proposal in person at the meeting. Failure to submit a proxy or vote at the meeting will have the same effect as a vote against the proposals. Under Maryland law, since our common stock is listed on the New York Stock Exchange, our common stockholders do not have the right to receive the appraised value of their shares in connection with the merger. If you do not vote in favor of the proposals and the merger takes place anyway, you will be bound by the terms of the merger agreement and will receive \$2.10 per share (less applicable withholding taxes, if any) for each share of Konover common stock you own at the time of the merger.

Q: When and where will the special meeting be held?

A: The special meeting will be held at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York, on Friday, November 22, 2002, at 9:00 a.m., local time. See [The Special Meeting](#) beginning on page 32.

Q: Who can vote?

A: Only our common stockholders of record as of the close of business on September 23, 2002 may vote at the meeting. See [The Special Meeting Record Date and Voting Power](#) beginning on page 32.

Q: What other matters will be voted on at the special meeting?

A: Maryland law and our bylaws do not permit any other matters to be presented at the special meeting except related procedural matters, including adjournment of the meeting to a later date.

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Q: How can I vote shares held in my broker's name?

A: If your broker or another nominee holds your shares in its name (or in what is commonly called "street name"), then you should give your broker or nominee instructions on how to vote. Otherwise, your shares will not be voted and will have the same effect as a vote against the merger proposal and the charter proposal. Your broker will provide you directions regarding how to instruct your broker to vote your shares. See "The Special Meeting Proxies, Voting and Revocation" beginning on page 33.

Q: Can I change my vote?

A: You may change your vote at any time before the vote is tabulated at the meeting. For shares held directly in your name, you may do this by sending a new proxy or a written revocation to Konover's secretary or by attending the meeting and voting there. Attending the meeting alone will not change the vote in the proxy you sent, unless you vote at the meeting. For shares held in "street name," you may change your vote only by giving new voting instructions to your broker or nominee. See "The Special Meeting Proxies, Voting and Revocation" beginning on page 33.

Q: What should I do now?

A: Please vote. If you mail your completed, signed, and dated proxy card in the enclosed envelope as soon as possible, your shares will be voted at the meeting even if you are unable to attend. No postage is required if the proxy card is returned in the enclosed postage prepaid envelope and mailed in the United States.

Q: What does it mean if I receive more than one proxy card?

A: It means your shares are registered differently or are held in more than one account. Please complete, sign, date, and mail each proxy card that you receive.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, we will send you written instructions that will tell you how to exchange your certificates for \$2.10 per share in cash, less any applicable withholding taxes. **Please do not send in your certificates now or with your proxies.** Hold your certificates until you receive further instructions.

Q: What happens if I sell my shares before the special meeting?

A: The record date for the meeting is earlier than the expected completion date of the merger. If you held your shares on the record date, but have transferred those shares after the record date and before the meeting, you will retain your right to vote at the meeting, but not the right to receive the merger consideration. The right to receive the merger consideration will pass to the person to whom you transferred your shares.

Q: Whom should I contact if I have questions about the merger proposal or the charter proposal or need additional copies of the proxy statement?

A: If you have more questions about the merger proposal or the charter proposal or would like additional copies of this proxy statement, you should contact Daniel J. Kelly, Executive Vice President and Chief Financial Officer, Konover Property Trust, Inc., 3434 Kildaire Farm Road, Raleigh, North Carolina 27606, Telephone (919) 372-3000.

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Summary

This summary highlights selected information in this proxy statement and may not contain all of the information that is important to you. To more fully understand the proposals to be voted on at the special meeting, and for a more complete description of the legal terms of the merger, you should read carefully this entire proxy statement and the documents to which it refers. Copies of the merger agreement and amendment no. 1 to the merger agreement are attached as Appendices A1 and A2 to this proxy statement. Copies of the alternate forms of charter containing the proposed charter amendments are attached at Exhibits B-1 and B-2 to Appendix A2 to this proxy statement. We refer to the merger agreement and amendment no. 1 to the merger agreement collectively as the merger agreement in this proxy statement.

Parties Involved in the Merger

Konover Property Trust, Inc.

We are principally engaged in the acquisition, development, ownership and operation of retail shopping centers in the Southeastern United States. Our revenues are primarily derived under real estate leases with national, regional and local retailing companies. Our address and phone number, and the address and phone number of our executive officers and directors (except for Messrs. Ross, Ticotin and Zobler), are:

3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

The address and phone number for Messrs. Ross, Ticotin and Zobler are:

c/o Lazard Frères Real Estate Investors L.L.C.
Attn: General Counsel
30 Rockefeller Plaza
New York, New York 10020
(212) 632-6000

KPT Properties, L.P.

KPT Properties, L.P., which is referred to in this proxy statement as the Operating Partnership, is a Delaware limited partnership through which we conduct substantially all of our operations. Konover is the sole general partner of the Operating Partnership. Konover owns a 97% interest in the Operating Partnership as of the record date. The Operating Partnership's address and phone number is:

3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

Additional information about the Operating Partnership and its general partner is set forth in The Parties Involved in the Merger.

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KPT Acquisition, L.P.

KPT Acquisition, L.P. is a Delaware limited partnership that was formed by Konover for the sole purpose of completing the OP Merger. It was formed in October 2002 and has not carried on any activities to date other than activities incident to its formation. Konover is the sole general partner of KPT Acquisition, L.P. In the OP Merger, KPT Acquisition, L.P. will merge into the Operating Partnership, with the Operating Partnership being the surviving entity. KPT Acquisition, L.P.'s address and phone number is:

3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

Additional information about KPT Acquisition, L.P. and its general partner is set forth in [The Parties Involved in the Merger](#).

PSCO Acquisition Corp.

PSCO is a Maryland corporation that was formed by Prometheus and Kimkon for the sole purpose of completing the merger with Konover as contemplated by the merger agreement. PSCO was incorporated in June 2002 and has not carried on any activities to date other than activities incident to its formation, as contemplated by the merger agreement and in connection with the filing of a Schedule 13E-3 with the Securities and Exchange Commission in connection with the merger. Immediately before the merger and as a result of contributions made by Prometheus and Kimkon to PSCO pursuant to the co-investment agreement, substantially all of PSCO's assets will consist of:

16,615,922 shares of Konover common stock contributed by Prometheus;

All of Prometheus's rights and obligations under the contingent value right agreement, dated February 24, 1998, between Prometheus and Konover, also contributed by Prometheus; and

Kimkon's contribution of \$35,554,438.50 in cash.

Certain investment funds, of which Lazard Frères Real Estate Investors, L.L.C. is the general partner, have guaranteed Prometheus's contribution obligations under the co-investment agreement, and Kimco has guaranteed Kimkon's contribution obligations under the co-investment agreement. See [The Merger and Related Agreements Co-Investment Agreement](#). Additional information about PSCO and about PSCO's directors and executive officers is set forth in [The Parties Involved in the Merger](#) and Appendix H to this proxy statement.

PSCO's address and phone number are:

PSCO Acquisition Corp.
c/o The Corporation Trust Incorporated
300 East Lombard Street
Baltimore, Maryland 21202
410-539-2837

The Prometheus Parties

Prometheus Southeast Retail Trust,
Prometheus Southeast Retail LLC,
LFSRI II SPV REIT Corp.,
LF Strategic Realty Investors II L.P.,
LFSRI II Alternative Partnership L.P.,
LFSRI II-CADIM Alternative Partnership L.P.,
Lazard Frères Real Estate Investors L.L.C., and
Lazard Frères & Co. LLC

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Prometheus is a Maryland real estate investment trust that currently owns 21,052,631 shares of our common stock. Prometheus (as assignee of Prometheus Southeast Retail LLC) and Konover are parties to a contingent value right agreement, which provides that if Prometheus has not doubled its investment (through stock appreciation, dividends, or both) in Konover by January 1, 2004, then we will pay Prometheus, in cash or stock, an amount necessary to achieve such a return (subject to a maximum payment of 4,500,000 shares of our common stock or the cash value thereof). Prometheus Southeast Retail LLC (**PSLLC**) is a Delaware limited liability company that owns 100% of the common stock of Prometheus. Additional information about Prometheus and PSLLC and about Prometheus' s directors and executive officers is set forth in The Parties Involved in the Merger and Appendix F to this proxy statement.

LFSRI II SPV REIT Corp. (**SPV**), a Delaware corporation, is a holding company and is the sole member of PSLLC. Additional information about SPV and about SPV' s directors and executive officers is set forth in The Parties Involved in the Merger and Appendix F to this proxy statement.

LF Strategic Realty Investors II L.P. (**LFSRI II**), LFSRI II Alternative Partnership L.P. (**LFSRI II-Alternative**) and LFSRI II-CADIM Alternative Partnership L.P. (**LFSRI II-CADIM**) (collectively the **LFSRI II Funds**), each a Delaware limited partnership, are investment partnerships formed to invest in companies active in the real estate industry. The LFSRI II Funds together own all of the common stock of SPV. Additional information about the LFSRI II Funds is set forth in The Parties Involved in the Merger.

Lazard Frères Real Estate Investors L.L.C. (**LFREI**), a New York limited liability company, is the general partner of each of the LFSRI II Funds. LFREI' s activities consist principally of acting as general partner of several real estate investment partnerships that are affiliated with Lazard Frères & Co. LLC. Additional information about LFREI and about the executive officers of LFREI and the members of the LFREI investment committee is set forth in The Parties Involved in the Merger and in Appendix F to this proxy statement.

Lazard Frères & Co. LLC (**LFC**) is a New York limited liability company and the managing member of LFREI. LFC' s activities consist principally of financial advisory services. Additional information about LFC and about the members of the LFC management committee is set forth in The Parties Involved in the Merger and in Appendix F to this proxy statement.

We refer to Prometheus, PSLLC, SPV, the LFSRI II Funds, LFREI, and LFC collectively as the Prometheus Parties in this proxy statement.

The address and phone number of Prometheus, PSLLC, SPV, the LFSRI II Funds, and LFREI are:

c/o Lazard Frères Real Estate Investors L.L.C.

Attn: General Counsel
30 Rockefeller Plaza
New York, New York 10020
(212) 632-6000

The address and phone number of LFC are:

Lazard Frères & Co. LLC
Attn: General Counsel
30 Rockefeller Plaza
New York, New York 10020
(212) 632-6000

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Merger Description

The Merger Structure.

The merger agreement provides that PSCO will be merged with Konover, with Konover surviving the merger. If the stockholders approve the proposals, the merger will become effective when the articles of merger have been filed with and accepted for record by the State Department of Assessments and Taxation of the State of Maryland in accordance with the Maryland General Corporation Law. At that time, PSCO will be merged with Konover, and PSCO will cease to exist as a separate entity. Konover, as the surviving corporation in the merger, will have as its stockholders: (1) Prometheus, (2) Kimkon, and (3) holders of PSCO's redeemable preferred stock, who will receive in the merger shares of a newly created Series B redeemable preferred stock in connection with preserving Konover's REIT status after the merger. We expect the merger to become effective as soon as practicable after our stockholders approve the merger proposal and charter proposal and all of the other conditions to the merger are waived or satisfied. See *The Merger and Related Agreements* *The Merger Structure*.

What You Will Receive in the Merger.

At the effective time of the merger, each issued and outstanding share of Konover common stock (other than the 16,615,922 shares held by PSCO) will be converted into the right to receive \$2.10 in cash, reduced by any applicable withholding taxes. Immediately before the merger, PSCO will become the owner of 16,615,922 of the 21,052,631 shares of our common stock currently owned by Prometheus, which 16,615,922 shares will be canceled without payment of any consideration. See *The Merger and Related Agreements* *Conversion of Stock and Options*. At the effective time of the merger, options with an exercise price of less than \$2.10 per share will be converted into the right to receive a cash payment equal to the amount by which the per share exercise price is less than \$2.10, multiplied by the number of shares of common stock subject to such options.

You should not send in your Konover common stock certificates until you receive a letter of transmittal after the merger is completed.

Dividends.

We ceased paying regular quarterly dividends in the second quarter of 2001 in order to conserve cash until we determined what our strategic focus would be. The merger agreement does not permit us to pay any dividends before the merger is completed unless we need to do so in order to preserve our REIT status. However, we do not expect that will be necessary. Since you will not own any stock of the surviving corporation, you will not receive any dividends for any period following the merger.

Recommendation of the Special Committee.

Our board of directors formed a special committee consisting of directors who were not officers or employees of Konover or any of its affiliates. The special committee retained its own independent legal and financial advisors. The special committee unanimously approved the merger, merger agreement, and charter amendments and recommended that our board of directors approve the same. The special committee believes the merger, merger agreement, and charter amendments are advisable and in the best interests of Konover and are fair to Konover and our unaffiliated stockholders. See *Special Factors* *Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors*.

Recommendation of Our Board of Directors.

Our board of directors determined that the merger, merger agreement, and charter amendments are advisable and in the best interests of Konover and are fair to Konover and our unaffiliated stockholders and accordingly unanimously approved the merger, merger agreement, and charter amendments. Our board of directors, therefore,

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recommends that you vote **For** the merger proposal and the charter proposal. See **Special Factors** **Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors**.

Background and Reasons for the Merger.

In making the determination to approve and recommend the merger proposal and the charter proposal, the special committee and our board of directors considered various factors and alternatives to the merger, including those described under the headings **Special Factors** **Background of the Merger,** and **Reasons for the Merger; Factors Considered by the Special Committee and Board of Directors**.

Opinion of the Special Committee's Financial Advisor.

In connection with the merger, Credit Suisse First Boston, the special committee's financial advisor, delivered a written opinion to the special committee as to the fairness, from a financial point of view, of the consideration to be received in the merger by Konover's common stockholders (other than PSCO and its affiliates). The full text of Credit Suisse First Boston's written opinion, dated June 23, 2002, is attached to this proxy statement as Appendix E. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken.

Credit Suisse First Boston's opinion is addressed to the special committee and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the merger. See **Special Factors **Opinion of the Special Committee's Financial Advisor**.**

Interests of Certain Persons in the Merger.

Some of our directors and officers have interests in the merger that are different from, or in addition to, your interests as a stockholder. These interests may relate to or arise from, among other things, options and severance payments. Three of our directors are also affiliated with the Prometheus Parties. See **Special Factors** **Interests of Directors and Officers in the Merger** for a more detailed description of these interests.

As of the record date, our executive officers and directors owned options to acquire 244,655 shares of our common stock; these options are either vested or will become vested immediately before the merger. Although the shares that may be acquired by exercising the options cannot be voted at the meeting, if the merger is completed these executive officers and directors will receive cash payments for those options having an exercise price of less than \$2.10 per share. Additionally, some executive officers, directors, and their affiliates own shares of our common stock or OP Units. Ownership of these securities will entitle these persons to an aggregate payment of approximately \$260,000 in the merger or OP Merger. Further, certain executive officers have entered into severance arrangements with us entitling them to receive, in the aggregate, \$868,000.

As of the record date, our directors, executive officers, and their affiliates, all of whom intend to vote **For** approval of the merger proposal and the charter proposal, beneficially owned an aggregate of 21,061,729 shares of our common stock (not including shares underlying unexercised options), representing approximately 66% of our common stock outstanding on the record date. This includes 21,052,631 shares of our common stock that Prometheus owns. Prometheus has entered into a voting agreement requiring it to vote **For** approval of the merger proposal and the charter proposal. See **The Merger and Related Agreements** **Voting Agreement**.

Appraisal Rights.

There are no dissenters' or appraisal rights offered in the merger agreement or otherwise in connection with the merger. Under Maryland law, since our common stock is listed on the New York Stock Exchange, our common stockholders do not have the right to receive the appraised value of their shares in connection with the merger.

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Charter Amendments.

If the merger is consummated, Konover will be the surviving corporation. A condition to the merger is the approval of certain amendments to our charter. Most of the proposed charter amendments require the approval of a majority of the outstanding common stock entitled to vote. In addition to these amendments, we are also proposing several additional amendments to our charter principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock, which require the approval of two-thirds of the outstanding common stock entitled to vote. Approval of these additional amendments is not a condition to the merger. You are being asked to vote on the charter amendments because Maryland law requires charter amendments to be approved by common stockholders. However, the charter amendments will not affect your rights as stockholders because if the merger is consummated, you will receive cash for your shares and will no longer hold an interest in us. If the merger is not consummated, the charter will not be amended. See Proposal Regarding Charter Amendments for a description of the charter amendments.

Special Meeting and Voting.

The Special Meeting.

The special meeting of the stockholders will be held at the Omni Berkshire Place, 21 East 52nd Street at Madison Avenue, New York, New York, on Friday, November 22, 2002, at 9:00 a.m., local time. At the meeting, you will be asked to consider and vote upon the proposals, which include approving the merger agreement, the merger and the charter amendments contemplated by the merger agreement. See The Special Meeting.

Record Date and Voting Power.

Our board of directors has fixed the close of business on September 23, 2002 as the record date for determining stockholders entitled to notice of, and to vote at, the meeting. On the record date, approximately 344 stockholders of record held the 31,915,014 shares of our common stock which were outstanding. Common stockholders of record on the record date will be entitled to one vote per share of common stock on any matter that may properly come before the meeting and any adjournment or postponement of the meeting. No other class of stock is entitled to vote at the meeting. See The Special Meeting Record Date and Voting Power.

Quorum and Vote Required.

Our charter and bylaws require (1) the presence, in person or by proxy, of holders of shares representing at least a majority of the votes entitled to be cast at the meeting in order to constitute a quorum, and (2) the affirmative vote of holders of shares representing at least a majority of the votes entitled to be cast at the meeting in order to approve the merger proposal and the charter proposal, except for certain charter amendments included in the charter proposal principally relating to stock transfer restrictions and the ability of our board of directors to classify or reclassify unissued stock, which require the affirmative vote of two-thirds of the votes entitled to be cast. Approval of the charter amendments requiring a majority vote is a condition to completing the merger, but approval of the charter amendments requiring a two-thirds vote is not a condition to completing the merger. Failure to return your proxy or direct your broker or nominee how to vote your proxy, as well as abstentions, will have the same effect as a vote against the proposals. See The Special Meeting Quorum and Vote Required.

Proxies, Voting and Revocation.

Shares represented at the meeting by properly executed proxies received prior to or at the meeting and not revoked will be voted at the meeting, and at any adjournments or postponements of the meeting, in accordance with the instructions on the proxies. If you execute a proxy and submit it without instructions, except for broker non-votes, the shares represented by your proxy will be voted **For** approval of the merger proposal and the charter proposal. Proxies are being solicited on behalf of our board of directors.

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You may revoke your proxy at or before the meeting by:

- (1) delivering to our secretary a written notice, bearing a later date than the previously delivered proxy, revoking the proxy;
- (2) executing, dating and delivering to our secretary a subsequently dated proxy; or
- (3) attending the meeting and voting in person. Attendance at the meeting will not, by itself, constitute revocation of a proxy. See The Special Meeting Proxies, Voting and Revocation.

We will bear our own cost of soliciting proxies. We will reimburse brokerage houses, fiduciaries, nominees and others for their out-of-pocket expenses in forwarding proxy materials to beneficial owners of our common stock held in their names. We have not retained the services of any third parties to assist us in the solicitation of proxies. We estimate that the costs to solicit proxies, including printing and postage, will be approximately \$60,000.

Broker Votes.

Shares may be held in the name of your broker or a nominee or in street name. Your broker or nominee will not vote your shares unless you provide to them instructions on how to vote. Your broker or nominee will provide you directions regarding how to instruct your broker or nominee to vote your shares. Without your instructions, your shares will not be voted, which will have the same effect as a vote against the merger proposal and the charter proposal.

Selected Merger Agreement Provisions

The merger agreement and amendment no. 1 to it are described on pages 92 through 105 and are attached to this proxy statement as Appendices A1 and A2. The merger agreement, as amended, is the legal document that governs the merger, and we encourage you to read it carefully.

OP Transfer.

As of the date of this proxy statement, substantially all of our OP Units are held by KPT Properties Holding Corp., which is one of our direct, wholly owned subsidiaries. Konover is the sole general partner of the Operating Partnership. As required by the merger agreement, before the merger of Konover and PSCO, we will cause KPT Properties Holding Corp. to transfer to Konover all of the OP Units it holds, except for 0.1% of the total common OP Units. We refer to this transfer as the OP Transfer throughout this proxy statement.

OP Merger.

Subsequent to the OP Transfer and prior to the merger of PSCO and Konover, we will cause KPT Acquisition, L.P., a newly formed, wholly owned Delaware limited partnership, to be merged with and into the Operating Partnership, with the Operating Partnership being the surviving entity. We refer to this merger as the OP Merger throughout this proxy statement. The OP Merger will occur on the same date as the merger of PSCO and Konover. In the OP Merger, each OP Unit, other than those owned directly or indirectly by Konover, will be converted automatically into the right to receive \$2.10, the same as the consideration per common share payable in the merger.

OP Distribution.

Immediately after the OP Merger but immediately before the consummation of the merger of PSCO and Konover, we will cause the Operating Partnership to distribute to Konover \$12,000,000.00 in cash. We refer to

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this distribution as the OP Distribution throughout this proxy statement. The Operating Partnership will make the OP Distribution out of its funds remaining after payment of the consideration to its minority limited partners (which excludes Konover) in the OP Merger.

Conditions to the Merger.

Each of Konover's and PSCO's obligation to complete the merger depends on the satisfaction or waiver of a number of conditions, including the following:

a majority of our common stockholders approving the merger proposal and the charter proposal (approval of those additional charter amendments requiring a two-thirds vote is not a condition to the merger);

the representations and warranties of the other party in the merger agreement being true and correct on the closing date (without giving effect to knowledge, materiality, or material adverse effect qualifiers), subject generally to any inaccuracies, in the aggregate, not having a material adverse effect on the party making the representations and warranties;

the material performance of the material obligations to be performed by the other party under the merger agreement;

the absence of governmental actions having the effect of making the merger illegal or otherwise prohibiting the merger; and

Prometheus completing its contribution to PSCO of Konover common stock and its rights under the contingent value right agreement and Kimkon completing its cash contribution to PSCO. If either Prometheus or Kimkon fail to make their respective required contributions, Konover has the right, under the co-investment agreement, to seek enforcement of those contributions and the guarantees relating to the contributions.

PSCO's obligation to complete the merger also depends on the satisfaction or waiver of a number of additional conditions, including the following:

Konover's subsidiary, KPT Properties Holding Corp., must have completed the OP Transfer;

The OP Merger must be completed, which will have the effect of causing the Operating Partnership to be directly and indirectly wholly owned by Konover;

Following the OP Merger, but before the merger of PSCO and Konover, the OP Distribution must be completed; and

Konover must deliver to PSCO a letter of resignation from each of William D. Eberle, Carol R. Goldberg, Simon Konover, J. Michael Maloney, L. Glenn Orr, Jr. and Philip A. Schonberger, who are the members of our board of directors that were not nominated by Prometheus, with each such resignation to be effective as of the closing of the merger.

For a more detailed description of the conditions to the merger, see "The Merger and Related Agreements - Conditions to the Merger."

Termination of the Merger Agreement.

Konover and PSCO may, by mutual written consent, agree to terminate the merger agreement without completing the merger. The merger agreement may also be terminated by either Konover or PSCO:

if there has been a breach of the merger agreement that causes the representations and warranties of the other party not to be true and correct and has a material adverse effect on the party making the

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- representations and warranties or causes the failure of a party to materially perform its material obligations;
- if any final, nonappealable order of any governmental entity or court is in effect that prevents completion of the merger;
- if our stockholders do not approve the merger proposal and charter proposal at the meeting; or
- if the merger is not completed on or before March 31, 2003.

We also have the right to terminate the merger agreement before our stockholders approve the merger proposal and charter proposal at the meeting if the special committee and our board of directors (acting without the participation of Messrs. Ross, Ticotin, and Zobler, or any of their successors) approves or recommends an alternative acquisition proposal that our board of directors concludes is a superior proposal (as defined in the merger agreement). But before we can terminate the merger agreement, we must give PSCO five business days to revise its proposal to make a counterproposal that is at least as favorable as the alternative acquisition proposal. If our board of directors concludes that the alternative acquisition proposal remains superior to PSCO's counterproposal and elects to terminate the merger agreement, we must pay PSCO a termination fee and reimburse PSCO for certain out-of-pocket costs and expenses.

Finally, PSCO also may terminate the merger agreement:

- if our board of directors withdraws or modifies in any adverse manner its approval or recommendation of the merger or approves any alternative acquisition proposal;
- if a third party commences a tender offer and our board of directors or the special committee does not recommend against accepting the offer to our stockholders (including by taking no position or a neutral position); or
- if we violate our obligation not to solicit alternative acquisition proposals.

For a more detailed description relating to termination of the merger agreement, see [The Merger and Related Agreements](#) Termination of the Merger Agreement.

Termination Fee and Expense Reimbursement Under the Merger Agreement.

If the merger agreement is terminated in any of the circumstances discussed below, we must pay PSCO a \$3.0 million termination fee plus all of PSCO's and its stockholders' and their affiliates' out-of-pocket costs and expenses incurred in the process of reviewing, negotiating, and buying Konover. The merger agreement caps the out-of-pocket costs and expenses we must pay at \$1.0 million. We must pay the termination fee and out-of-pocket costs and expenses if the merger agreement is terminated:

- by PSCO, as a result of our board of directors withdrawing or modifying in any adverse manner its approval or recommendation of the merger agreement or approving or recommending to our stockholders an alternative acquisition proposal;
- by Konover, as a result of our board of directors determining to approve or recommend a superior proposal to the merger;
- by PSCO, as a result of our breach of our obligation not to solicit alternative acquisition proposals;
- by PSCO, because we breached the merger agreement and within 12 months of termination, we enter into an alternative acquisition transaction that results in the payment to our common stockholders of an amount per share of at least \$2.10; or
- by Konover, because the merger was not completed by March 31, 2003, and by June 30, 2003, we enter into an alternative acquisition transaction that results in the payment to our common stockholders of an amount per share of at least \$2.10.

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For a more detailed description relating to termination of the merger agreement, see [The Merger and Related Agreements](#) [Termination of the Merger Agreement](#).

Financing, Tax, and Accounting Matters

Financing for the Merger.

The funds to pay the merger consideration will come from a combination of Kimkon's cash contribution of approximately \$35.6 million to PSCO and from cash that we have on hand, a portion of which will be distributed by our Operating Partnership to Konover immediately before the closing of the merger. There are no financing contingencies to the completion of the merger. Under the terms of the co-investment agreement, to which Konover is an express third-party beneficiary, Kimkon is obligated to make the cash contribution to PSCO after all of the other conditions precedent in the merger agreement to PSCO's obligation to complete the merger are satisfied or waived. Kimkon's cash contribution will be funded from Kimco's cash on hand or credit facilities. Kimco has guaranteed Kimkon's obligation to contribute cash to PSCO.

Material Federal Income Tax Considerations.

In general, you will recognize a gain or loss for U.S. federal income tax purposes equal to the difference between the cash received in payment for your stock of Konover and your adjusted tax basis in your stock of Konover. This transaction may also be taxable for state, local or foreign tax purposes. See [Special Factors](#) [Material Federal Income Tax Considerations](#).

Because individual circumstances may differ, each stockholder is urged to consult his or her own tax advisor to determine the particular tax effects of the merger, including the application and effect of state, local and other tax laws.

Accounting Treatment.

The merger will be treated as a recapitalization transaction in accordance with generally accepted accounting principles. See [Special Factors](#) [Expected Accounting Treatment of the Merger](#).

Further Information

Additional Information.

This proxy statement contains important information regarding the merger proposal and the charter proposal. It also contains important information about the factors we, the special committee of our board of directors, and our board of directors considered in evaluating the merger proposal and the charter proposal. We urge you to read this document carefully, including the appendices, before voting your shares.

Stockholder Questions.

If you have more questions about the merger proposal or the charter proposal, you may contact:

Daniel J. Kelly
Executive Vice President and Chief Financial Officer
Konover Property Trust, Inc.
3434 Kildaire Farm Road
Suite 200
Raleigh, North Carolina 27606
(919) 372-3000

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Selected Financial and Other Information
(in thousands, except for share and property data)

The following table sets forth summary historical consolidated financial and operating information for Konover. The summary historical consolidated financial information for the six months ended June 30, 2002 and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 is derived from the unaudited consolidated financial statements for Konover for the six months ended June 30, 2002 and the audited consolidated financial statements of Konover for the years ended December 31, 2001, 2000, 1999, 1998 and 1997. The information set forth below should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto incorporated into this proxy statement by reference from our Annual Report on Form 10-K for the year ended December 31, 2001, which is included as Appendix J to this proxy statement.

	For the Six Months Ended June 30, 2002	For the Years Ended December 31,				
		2001	2000	1999	1998	1997
Operating Data:						
Rental revenues	\$ 19,883	\$ 75,113	\$ 88,920	\$ 82,449	\$ 70,666	\$ 54,940
Property operating costs	6,506	25,025	29,215	27,057	21,749	16,885
	13,377	50,088	59,705	55,392	48,917	38,055
Depreciation and amortization	5,377	18,505	25,614	23,562	19,034	15,858
General and administrative	4,539	7,950	6,669	6,317	5,066	4,404
Stock compensation amortization	86	845	2,865	1,979	1,419	537
Severance and other related costs		6,099				
Interest, net	8,578	28,131	27,806	16,801	19,772	16,436
(Gain) loss on sale of real estate	(213)	(367)	1,946	3,810	512	
Abandoned transaction costs	31	83	1,257	3,883		1,250
E-commerce start-up costs				2,847		
Equity in (earnings) losses of unconsolidated entities	(335)	6,782	10,416	915		
Operating loss of sold management business	84					