AVALONBAY COMMUNITIES INC
Form DEF 14A
April 02, 2007

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

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

AVALONBAY COMMUNITIES, INC

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
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	(2)	Form, Schedule or Registration Statement No.:
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2900 Eisenhower Avenue, Suite 300
Alexandria, Virginia 22314

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 16, 2007

NOTICE IS HEREBY GIVEN that the 2007 Annual Meeting of Stockholders (the Annual Meeting) of AvalonBay Communities, Inc., a Maryland corporation (the Company), will be held on Wednesday, May 16, 2007, at 9:00 a.m. local time at The Ritz-Carlton Tysons Corner Hotel, 1700 Tysons Boulevard, McLean, VA 22102, for the following purposes:

1. To elect nine directors to serve until the 2008 Annual Meeting of Stockholders and until their respective successors are elected and qualify from among the following nominees: Bryce Blair, Bruce A. Choate, John J. Healy, Jr., Gilbert M. Meyer, Timothy J. Naughton, Lance R. Primis, H. Jay Sarles, Allan D. Schuster and Amy P. Williams.

2. To vote on ratifying the selection by the Audit Committee of the Company s Board of Directors of Ernst & Young LLP as the Company s independent auditors for 2007.

3. To transact such other business as may be properly brought before the Annual Meeting and at any postponements or adjournments thereof.

Any action may be taken on the foregoing matters at the Annual Meeting on the date specified above, or on any date or dates to which, by original or later postponement or adjournment, the Annual Meeting may be postponed or adjourned.

The Board of Directors has fixed the close of business on February 28, 2007 as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof. Only holders of record of the Company s common stock, par value $0.01 per share (the Common Stock), at that time will be entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof.

You are requested to authorize a proxy to vote your shares by filling in and signing the enclosed proxy card, which is being solicited by the Board of Directors, and by mailing it promptly in the enclosed postage-prepaid envelope. You may also authorize a proxy to vote your shares by telephone or over the Internet by following the instructions on your proxy card. Any proxy delivered by a holder of Common Stock may be revoked by a writing delivered to the Company stating that the proxy is revoked or by delivery of a properly executed, later dated proxy. Holders of record of Common Stock who attend the Annual Meeting may vote in person, even if they have previously delivered a signed proxy or authorized a proxy by telephone or over the Internet, but the presence (without further action) of a stockholder at the Annual Meeting will not constitute revocation of a previously delivered proxy.

By Order of the Board of Directors

Edward M. Schulman
Secretary

Alexandria, Virginia
April 5, 2007

Proxy Statement

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AvalonBay Communities, Inc.

2900 Eisenhower Avenue, Suite 300
Alexandria, Virginia 22314

PROXY STATEMENT

FOR 2007 ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 16, 2007

I. SOME QUESTIONS YOU MAY HAVE REGARDING THIS PROXY STATEMENT

Q. Why am I receiving these materials?

A. This Proxy Statement and the accompanying Notice of Annual Meeting and proxy card are first being sent to stockholders on or about April 5, 2007. The accompanying proxy is solicited on behalf of the Board of Directors of AvalonBay Communities, Inc., a Maryland corporation (the Company). We are providing these proxy materials to you in connection with our 2007 Annual Meeting of Stockholders of the Company to be held on Wednesday, May 16, 2007, at 9:00 a.m. local time at The Ritz-Carlton Tysons Corner Hotel, 1700 Tysons Boulevard, McLean, VA 22102, and any postponements or adjournments thereof (the Annual Meeting). As a Company stockholder, you are invited to attend the Annual Meeting and are entitled and requested to vote on the proposals described in this proxy statement.

Q. Who may vote at the Annual Meeting?

A. You may vote all the shares of our common stock that you owned at the close of business on February 28, 2007, the record date. On the record date the Company had 79,654,651 shares of common stock outstanding and entitled to vote at the meeting. You may cast one vote for each share of common stock held by you on all matters.

Q. What constitutes a quorum at the Annual Meeting?

A. The presence, in person or by proxy, of holders of a majority of all of the shares of Common Stock entitled to vote is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted for purposes of determining whether a quorum is present for the transaction of business at the Annual Meeting. A broker non-vote refers to a share represented at the Annual Meeting which is held by a broker or other nominee who has not received instructions from the beneficial owner or person entitled to vote such share and with respect to which, on one or more but not all proposals, such broker or nominee does not have discretionary voting power to vote such share.

Q. What proposals will be voted on at the Annual Meeting?

A. At the Annual Meeting, stockholders will be asked to: (1) elect nine directors of the Company, (2) vote on ratifying the selection of Ernst & Young LLP as the Company s independent auditors for 2007 and (3) transact such other business as may be properly brought before the Annual Meeting.

Q. How does the Board of Directors recommend I vote?

A. Please see the information included in the Proxy Statement relating to the proposals to be voted on. Our Board of Directors unanimously recommends that you vote:

1. **FOR** each of the nominees to the Board of Directors; and

2. **FOR** ratification of the selection of Ernst &Young LLP as the Company s independent auditors for 2007.

Q. How do I vote?

A. Whether you hold shares directly as the stockholder of record or indirectly as the beneficial owner of shares held for you by a broker or other nominee (i.e., in street name), you may direct your vote without attending the Annual Meeting. You may vote by granting a proxy or, for shares you hold in street name, by submitting voting instructions to your broker or nominee. In most instances, you will be able to do this either over the Internet, by telephone or by mail. Please refer to the summary instructions below and those included on your proxy card or, for shares you hold in street name, the voting instruction card provided by your broker or nominee.

By Internet *If* you have Internet access, you may authorize your proxy from any location in the world by following the By Internet instructions on the proxy card, or, if applicable, the Internet voting instructions that may be described on the voting instruction card sent to you by your broker or nominee.

By Telephone If you live in the United States or Canada, you may authorize your proxy by following the By Telephone instructions on the proxy card, or, if applicable, the telephone voting instructions that may be described on the voting instruction card sent to you by your broker or nominee.

By Mail You may authorize your proxy by signing your proxy card and mailing it in the enclosed, postage-prepaid and addressed envelope. For shares you hold in street name, you may sign the voting instruction card included by your broker or nominee and mail it in the envelope provided.

You may change your proxy instructions at any time prior to the vote at the Annual Meeting. For shares held directly in your name, you may do this by granting a new properly executed and later dated proxy, by filing a written revocation with the Secretary of the Company at the address of the Company set forth above, or by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting without further action will not cause your previously granted proxy to be revoked. You may change your proxy instructions for shares you beneficially own by submitting new voting instructions to your broker or nominee.

If a properly signed proxy is submitted but not marked as to a particular item, the proxy will be voted FOR the election of the nine nominees for director of the Company named in this Proxy Statement and FOR the ratification of the selection of Ernst & Young as the Company s independent auditors for 2007. It is not anticipated that any matters other than those set forth in the Proxy Statement will be presented at the Annual Meeting. If other matters are presented, proxies will be voted in the discretion of the proxy holders.

The Company s 2007 Annual Report to Stockholders, including financial statements for the fiscal year ended December 31, 2006, is being mailed to stockholders concurrently with this Proxy Statement. The Annual Report, however, is not part of the proxy solicitation material. **A copy of the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC), including all exhibits to such form, may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company s website (www.avalonbay.com).**

II. PROPOSALS

PROPOSAL 1
ELECTION OF DIRECTORS

The Board of Directors consists of nine members. The Board has nominated for election each of the nine current directors. Accordingly, nine nominees will stand for election at the Annual Meeting and if elected will serve until the 2008 Annual Meeting of Stockholders and until their successors are elected and qualify. The following individuals have been nominated by the Board of Directors to serve as directors: Bryce Blair, Bruce A. Choate, John J. Healy, Jr., Gilbert M. Meyer, Timothy J. Naughton, Lance R. Primis, H. Jay Sarles, Allan D. Schuster and Amy P. Williams (each a Nominee , and collectively the Nominees). The Board of Directors anticipates that each of the Nominees, if elected, will serve as a director. However, if any person nominated by the Board of Directors is unable to serve or for good cause will not serve, the proxies will be voted for the election of such other person as the Board of Directors may recommend.

Required Vote and Recommendation

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted for all of the Nominees unless contrary instructions are set forth on the enclosed proxy card. The affirmative vote of the holders of a majority of all outstanding shares of Common Stock is required to elect a Nominee. Accordingly, a vote withheld from a Nominee (i.e., an abstention) will have the same effect as a vote against the Nominee. Because there are only nine Nominees for nine Board positions, if a Nominee who is currently a director fails to receive the affirmative vote of the holders of a majority of all outstanding shares of Common Stock, then the Nominee will remain a director until such director s successor is duly elected and qualifies.

The Board of Directors unanimously recommends a vote FOR all of the Nominees.

Information Regarding Nominees

The following biographical descriptions set forth information with respect to the Nominees for election as directors, based on information furnished to the Company by each Nominee. There is no family relationship between any director, Nominee, or executive officer of the Company.

Employee Directors:

Bryce Blair, 48, has been a director of the Company since May 2001. Mr. Blair has also served as the Company s Chairman of the Board since January 1, 2002, Chief Executive Officer since February 1, 2001 and President from September 2000 through February 23, 2005. Mr. Blair was the Chief Operating Officer of the Company from February 1999 to February 2001. Prior to February 1999, Mr. Blair had served as Senior Vice President Development, Acquisitions and Construction since the merger of the Company and Avalon Properties, Inc. (Avalon Properties) in June 1998 (the Merger), the same position he held with Avalon Properties from its formation in August 1993 through June 1998. Mr. Blair was a partner with the Northeast Group of Trammell Crow Residential (TCR) from 1985 until 1993. Mr. Blair received his Masters degree in Business Administration from Harvard Business School. He graduated magna cum laude with an undergraduate degree in Civil Engineering from the University of New Hampshire. He is a member of the Young Presidents Organization (YPO), the National Association of Real Estate Investment Trusts (NAREIT), where he is on the Executive Committee and the Board of Governors, and the Urban Land Institute (ULI) where he serves as Chairman of the Multifamily Council as well as a Trustee.

Timothy J. Naughton, 45, has been a director of the Company since September 2005 and has been President since February 23, 2005. Previously, Mr. Naughton served as Chief Operating Officer since February 2001. Mr. Naughton has direct oversight of development, construction and investments, and plays an instrumental leadership role in other aspects of the Company s business as well. Prior to assuming the Chief Operating Officer role, Mr. Naughton served as Senior Vice President Chief Investment Officer since January 2000, overseeing the Company s investment strategy. Prior to becoming the Chief Investment Officer, Mr. Naughton served as the Company s Regional Vice President Development and Acquisitions, with responsibility primarily in the Mid-Atlantic and Midwest regions of the country. Mr. Naughton has been with the Company or its predecessors since 1989. Mr. Naughton is a member of The Real Estate Round Table, the Multifamily Council of the ULI and a member of the National Multi-Housing Council (NMHC), where he serves on the Executive Committee. Mr. Naughton received his Masters of Business Administration from Harvard Business School in 1987 and earned his undergraduate degree in Economics with High Distinction from the University of Virginia, where he was elected to Phi Beta Kappa.

Non-Employee Directors:

Bruce A. Choate, 59, has been a director of the Company since April 1994. In December, 2002, Mr. Choate was elected to the Board of Directors of Watson Land Company, a privately-held real estate investment trust (REIT) in Carson, California. At that time, Mr. Choate was also appointed as its President and Chief Executive Officer. Prior to December 2002, Mr. Choate had served since 1991 as Watson Land Company s Chief Financial Officer. Prior to joining Watson Land Company, Mr. Choate was employed by Bixby Ranch Company, a privately-held real estate investment company in Seal Beach, California, as Senior Vice President and Chief Financial Officer. Previously, Mr. Choate held various management positions with national banking and mortgage banking organizations. He holds membership in the ULI, NAREIT, the Real Estate Investment Advisory Council, The Real Estate Round Table, and the National Association of Industrial and Office Property, and he serves on the Board of Directors of the Los Angeles Area Chamber of Commerce and the Los Angeles Economic Development Corporation and is a charter member of the Southern California Leadership Council. Mr. Choate has been nominated to stand for election to the Board of Directors of Standard Pacific Corp. at its annual meeting of shareholders scheduled for May 9, 2007.

John J. Healy, Jr., 60, has been a director of the Company since 1996. Mr. Healy is Co-Founder and CEO of Hyde Street Holdings, Inc., an investor in real estate and real estate related entities. Previously, Mr. Healy co-founded the Hanford/Healy Companies (1988), a real estate investment, asset management and consulting company, which was purchased by GMAC Commercial Mortgage, a subsidiary of General Motors, in September 1996. Mr. Healy has also held various management positions with real estate and financial firms including: The Federal Asset Disposition Association (predecessor to the Resolution Trust Corporation), Bank of America (COO and Director of Technical Services for a real estate subsidiary) and Manufacturers Hanover Trust Company (VP). Mr. Healy sits on the boards of AMB Alliance Fund III (Independent Council) and The Rosalind Russell Research Center for Arthritis (UCSF). Memberships in professional associations include: ULI, American Society of Real Estate Counselors (CRE), American Institute of Real Estate Appraisers (MAI), National Association of Corporate Directors (NACD), and Fellow Royal Institution of Chartered Surveyors.

Gilbert M. Meyer, 62, has been a director of the Company since 1978. Mr. Meyer is the Company s founder and has been continuously involved with the Company as an executive officer, director and/or stockholder since 1978. Mr. Meyer served as Executive Chairman of the Company from the date of the Merger until his retirement from that position in May 2000. Prior to the completion of the Merger, Mr. Meyer served as the Company s Chairman, President and Chief Executive Officer. Mr. Meyer is also the founder and remains President of Greenbriar Homes Communities, Inc., a private for-sale, single-

family home building company in Northern California, and is a major stockholder in that company and indirectly owns significant interests in its limited liability company affiliates. He is also a member of the Haas School of Business Advisory Board, University of California at Berkeley, a member of the Policy Advisory Board of the Fisher Center for Real Estate and Urban Economics, University of California at Berkeley, and a member of the boards of philanthropic non-profit organizations.

Lance R. Primis, 60, has been a director of the Company since June 1998. Effective January 1, 2003, Mr. Primis was designated the Lead Independent Director of the Company (see Board of Directors and its Committees Lead Independent Director). Since 1997, Mr. Primis has been the managing partner of Lance R. Primis & Partners, LLC, a management consulting firm with clients in the media industry. From 1969 to 1996, Mr. Primis was employed in various positions by The New York Times Company, including the positions of President and Chief Operating Officer, which he held from 1992 to 1996. In addition, Mr. Primis was the President and General Manager of The New York Times from 1988 to 1992. In addition, Mr. Primis is a member of the Board of Directors of Torstar Corporation, Metro International S.A., and Plum Holdings, LLC.

H. Jay Sarles, 61, has been a director of the Company since September 2005. Mr. Sarles is a private investor and senior advisor to Nautic Partners, a private equity company that manages $1.5 billion in assets. Mr. Sarles retired as Vice Chairman of Bank of America in March 2005. Prior to joining Bank of America in 2004, Mr. Sarles served in a variety of executive positions with FleetBoston Financial Corporation and its predecessors, including Vice Chairman and Chief Administrative Officer from December 2002 and Vice Chairman, Wholesale Banking prior to that. Mr. Sarles is a director of Ameriprise Financial, Inc., Carlyle Capital Corporation, Limited, Dental Service of Massachusetts and DentaQuest Ventures, Inc., and MBNA Europe Bank Limited, an indirect subsidiary of Bank of America, and is a trustee of Mount Holyoke College.

Allan D. Schuster, 65, has been a director of the Company since June 1998 and was a director of Avalon Properties from December 1993 through June 1998. Mr. Schuster has been a private investor since June 1993. From April 1988 until June 1993, he was Chairman and Chief Executive Officer of the Travelers Realty Investment Company, where he directed that company s investment activities in commercial and agricultural real estate. During this same period, Mr. Schuster was Chairman and Chief Executive Officer of Prospect Company, a real estate development company. From December 1972 to September 1987, Mr. Schuster was with Citibank, N.A., where during the last five years of that term he was Managing Director of Citicorp Real Estate, Inc. Mr. Schuster is a member of the Appraisal Institute and the ULI.

Amy P. Williams, 50, has been a director of the Company since May 2001. Ms. Williams is a private investor and, until May 2005, was Vice President, Finance & Planning, of Allstate Insurance Company, the largest publicly-traded personal lines insurer in the United States. Prior to assuming that office, Ms. Williams was Vice President, Corporate Strategy for Allstate. Prior to joining Allstate in 1999, Ms. Williams had been a Partner since 1996 at Mitchell Madison Group, a global management consulting firm, where she headed the Chicago office and led the merger integration practice. From 1992 to 1996, Ms. Williams was a member of the senior management team of USF&G, Inc., a multi-line insurer based in Baltimore, Maryland, and her positions there included Senior Vice President, Strategy, and Senior Vice President, Human Resources. Prior to joining USF&G, Ms. Williams was a Senior Engagement Manager in McKinsey & Company s Chicago office.

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC AUDITORS

The Board recommends that the stockholders ratify the Audit Committee s selection of Ernst & Young LLP (Ernst & Young) as the principal independent auditors of the Company for fiscal year 2007.

Ernst & Young was also the Company s principal independent auditors for fiscal year 2006. If the selection of Ernst & Young is not ratified, the Audit Committee anticipates that it will nevertheless engage Ernst & Young as auditors for fiscal year 2007, but will consider whether it should select other auditors for fiscal year 2008. If the selection of Ernst & Young is ratified by the stockholders, the Audit Committee may nevertheless determine, based on changes in fees, personnel or for other reasons, to engage a firm other than Ernst & Young for the 2007 audit.

Representatives of Ernst & Young are expected to be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. They are also expected to be available to respond to appropriate questions.

Required Vote and Recommendation

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted for ratification of the selection of Ernst & Young as the Company s independent auditors for fiscal year 2007 unless contrary instructions are set forth on the enclosed proxy card. A majority of the votes cast at the Annual Meeting is required to ratify the selection of Ernst & Young. Accordingly, an abstention will have no effect on the outcome of the vote.

The Board of Directors unanimously recommends a vote FOR the ratification of the selection of Ernst & Young as the Company s independent auditors for fiscal year 2007.

OTHER MATTERS

The Board of Directors does not know of any matters other than those described in this Proxy Statement which will be presented for action at the Annual Meeting. If other matters are presented, proxies will be voted in the discretion of the proxy holders.

Regardless of the number of shares you own, your vote is important to the Company. Please complete, sign, date and promptly return the enclosed proxy card or authorize a proxy by telephone or over the Internet to vote your shares by following the instructions on your proxy card.

III. CORPORATE GOVERNANCE AND RELATED MATTERS

Code of Ethics and Corporate Governance Guidelines

The Company has adopted a Code of Conduct, which constitutes a code of ethics as defined by the SEC, that applies to the Company s Board of Directors as well as its Chief Executive Officer, Chief Financial Officer, principal accounting officer, controller, and other employees of the Company. In addition, the Company has adopted Corporate Governance Guidelines. A copy of the Code of Conduct and the Corporate Governance Guidelines may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company s website (*www.avalonbay.com*). To the extent required by the rules of the SEC and the New York Stock Exchange (NYSE), we will disclose amendments and waivers relating to these documents in the same place on our website.

Board of Directors and its Committees

Board of Directors. The Board of Directors consists of nine directors. The Board of Directors met five times during 2006. The Board of Directors schedules regular executive sessions at each of its meetings, in which the Company s non-employee directors meet without management participation. In addition, at least once each year the Company s independent directors meet without non-independent director participation. Each of the directors attended at least 75% of the total number of meetings of the Board of Directors and meetings of the committees of the Board of Directors of which he or she was a member. The Board expects all directors to attend annual meetings of stockholders, and all directors were in attendance at the 2006 Annual Meeting of Stockholders.

Audit Committee. The Board of Directors has established an Audit Committee. The current members of this committee are Messrs. Choate (Chair), Schuster and Sarles, and Ms. Williams. The Board of Directors has determined that Mr. Choate is an audit committee financial expert as defined by the SEC and the NYSE. Mr. Choate s designation by the Board as an audit committee financial expert is not intended to be a representation that he is an expert for any purpose as a result of such designation, nor is it intended to impose on him any duties, obligations or liability that are greater than the duties, obligations or liability imposed on him as a member of the Audit Committee and the Board in the absence of such designation. The Board of Directors has determined that the members of the Audit Committee, including the audit committee financial expert, are independent under the rules of the SEC and the NYSE. The Audit Committee, among other functions, has the sole authority to appoint and replace the independent auditors, is responsible for the compensation and oversight of the work of the independent auditors, reviews the results of the audit engagement with the independent auditors, and reviews and discusses with management and the independent auditors quarterly and annual financial statements and major changes in accounting and auditing principles. The Audit Committee met nine times during 2006. The Board of Directors has adopted a written charter for the Audit Committee. A copy of the Audit Committee charter may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company s website (*www.avalonbay.com*).

Compensation Committee. The Board of Directors has established a Compensation Committee. The current members of this committee are Ms. Williams (Chair) and Messrs. Healy and Sarles. The Board of Directors has determined that the members of the Compensation Committee are independent under the rules of the NYSE. The Compensation Committee, among other functions, reviews, designs and determines compensation structures, programs and amounts, establishes corporate and management performance goals and objectives, and administers the Company s incentive compensation plans, including the Company s Stock Incentive Plan. The Compensation Committee also reviews employment agreements and arrangements with officers. The Compensation Committee may establish and delegate authority to one or more subcommittees consisting of one or more of its members as the Committee deems appropriate in order to carry out its responsibilities. In addition, our Stock Incentive Plan provides that the Committee, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Committee s authority and duties under the Plan with respect to stock and option awards, including the granting of awards, to individuals who are not subject to the reporting and other provisions of Section 16 of the Securities Exchange Act of 1934, as amended. The Compensation Committee recently engaged Steven Hall & Partners, an executive compensation consulting firm, to provide it with advice and counsel on executive and board compensation, as well as competitive pay practices. The Compensation Committee met four times during 2006. The Board of Directors has adopted a written charter for the Compensation Committee. A copy of the Compensation Committee charter may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company s website (*www.avalonbay.com*).

Nominating and Corporate Governance Committee. The Board of Directors has established a Nominating and Corporate Governance Committee (the Nominating Committee). The current members of this committee are Messrs. Schuster (Chair) and Primis. The Board of Directors has determined that the members of the Nominating Committee are independent under the rules of the NYSE. The Nominating Committee was formed to, among other functions, identify individuals qualified to become Board members, consider policies relating to Board and committee meetings, recommend the establishment or dissolution of Board committees and address other issues regarding corporate governance. The Nominating Committee met twice during 2006. The Board of Directors has adopted a written charter for the Nominating Committee. A copy of the Nominating Committee charter may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company s website (*www.avalonbay.com*).

In evaluating and determining whether to recommend a person as a candidate for election as a director, the Nominating Committee considers the qualifications set forth in the Company s corporate governance guidelines, which include business and professional background; history of leadership or contributions to other organizations; functional skill set and expertise; general understanding of marketing, finance, accounting and other matters relevant to the success of a publicly-traded company in today s business environment; and service on other boards of directors. The Nominating Committee may employ a variety of methods for identifying and evaluating nominees for director. The Nominating Committee may assess the size of the Board, the need for particular expertise on the Board, the upcoming election cycle of the Board and whether any vacancies are expected, due to retirement or otherwise. In the event that vacancies are anticipated or otherwise arise, the Nominating Committee will consider various potential candidates for director which may come to the Nominating Committee s attention through current Board members, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating Committee, and may be considered at any time during the year.

In exercising its function of recommending individuals for nomination by the Board for election as directors, the Nominating Committee considers nominees recommended by stockholders. The procedure by which stockholders may submit such recommendations is set forth in the Company s Bylaws. See Other Matters Stockholder Proposals for Annual Meetings for a summary of these requirements. When nominations are properly submitted, the Nominating Committee will consider candidates recommended by stockholders under the criteria summarized above. Following verification of the stockholder status of persons proposing candidates, the Nominating Committee makes an initial analysis of the qualifications of any candidate recommended by stockholders or others pursuant to the criteria summarized above to determine whether the candidate is qualified for service on the Company s Board of Directors before deciding to undertake a complete evaluation of the candidate. If any materials are provided by a stockholder or professional search firm in connection with the nomination of a director candidate, such materials are forwarded to the Nominating Committee as part of its review. The same identifying and evaluating procedures apply to all candidates for director nomination, including candidates submitted by stockholders.

If you would like the Nominating Committee to consider a prospective candidate, please submit the candidate s name and qualifications and other information in accordance with the requirements for director nominations by stockholders in the Company s Bylaws to: AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Corporate Secretary.

Investment and Finance Committee. The Board of Directors has established an Investment and Finance Committee. The current members of this committee are Messrs. Healy (Chair), Blair, Choate, Meyer, Schuster, Naughton and Primis. The Investment and Finance Committee was formed to, among other things, review and monitor the acquisition, disposition, development and redevelopment of the Company s communities, and review and monitor the financial structure, capital sourcing strategy and financial plans and projections of the Company. The Investment and Finance Committee has authority, subject to certain limits and guidelines set by the Board of Directors and Maryland law, to approve investment and financing activity. The Investment and Finance Committee met thirteen times during 2006.

Lead Independent Director. To help assure sound corporate governance practices, the Board of Directors established the position of Lead Independent Director and Mr. Primis currently serves in that role. Mr. Primis role as Lead Independent Director includes chairing meetings of the non-management and independent directors; helping to encourage and facilitate communications among the non-management directors, the Chairman and management; facilitating communications among committees of the Board of Directors; and acting as a contact person for those who wish to communicate with the non-management directors.

Independence of the Board. The NYSE has adopted independence standards for companies listed on the NYSE, including the Company. These standards require a majority of the Board of Directors to be independent and every member of the Audit Committee, Compensation Committee and Nominating Committee to be independent. NYSE standards provide that a director is considered independent only if the Board of Directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, the NYSE provides that:

- A director who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship;

- A director who receives, or whose immediate family member receives, more than $100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than $100,000 per year in such compensation;

- A director is not independent if (A) the director or an immediate family member is a current partner of a firm that is the Company s internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm s audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company s audit within that time;

- A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company s present executives serve on that company s compensation committee is not independent until three years after the end of such service or the employment relationship;

- A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in a single fiscal year, exceeds the greater of $1 million, or 2% of such other company s consolidated gross revenues, is not independent until three years after falling below such threshold.

To determine which of its members is independent, the Board of Directors used the above standards and also considered whether a director had any other past or present relationships with the Company which created conflicts or the appearance of conflicts. Based on this review, the Board determined that all current directors are independent because none of them has any past or present material relationships with the Company that creates a conflict or the appearance of a conflict, except for (i) Mr. Blair, who currently serves as the Company s Chief Executive Officer, (ii) Mr. Naughton, who currently serves as the

Company s President, and (iii) Mr. Meyer, who was the founder and former Chairman and Chief Executive Officer of the Company.

Contacting the Board

You may contact any of our directors, including the Lead Independent Director or our non-management directors as a group, by writing to them c/o AvalonBay Communities, Inc., 2900 Eisenhower Ave., Suite 300, Alexandria, VA 22314, Attention: Corporate Secretary. Your letter should clearly specify the name of the individual director or group of directors to whom your letter is addressed. Any communications received in this manner will be forwarded as addressed.

Report of the Audit Committee

The Audit Committee reviews the Company s financial reporting process on behalf of the Board of Directors. Management has primary responsibility for this process, including the Company s system of internal controls, and for the preparation of the Company s consolidated financial statements in accordance with generally accepted accounting principles. The Company s independent auditors, and not the Audit Committee, are responsible for auditing and expressing an opinion on the conformity of the Company s audited financial statements to generally accepted accounting principles.

In this context, during 2006, the Audit Committee reviewed and discussed the audited financial statements with management and the independent auditors. The Audit Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). In addition, the Audit Committee received from the independent auditors the written disclosures required by Independence Standards Board No. 1 (Independence Discussions with Audit Committees) and discussed with the independent auditors their independence from the Company and its management.

Relying on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements be included in the Company s Annual Report on SEC Form 10-K for the year ended December 31, 2006, for filing with the SEC.

Submitted by the Audit Committee

Bruce A. Choate (Chair)
H. Jay Sarles
Allan D. Schuster
Amy P. Williams

Fiscal 2005 and 2006 Audit Fee Summary

During fiscal years 2005 and 2006, the Company retained its principal independent auditors, Ernst & Young, to provide services in the following categories and approximate amounts:

	2005	2006
Audit fees	$ 717,500	$ 968,000
Audit related fees (1)	$ 249,870	$ 271,225
Tax fees (2)	$ 232,350	$ 231,440
All other fees	$ 0	$ 0

(1) Audit related fees include fees for services traditionally performed by the auditor such as subsidiary audits, employee benefit audits, and accounting consultation.

(2) Tax fees include preparation and review of subsidiary tax returns and taxation advice.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

Transactions with Related Persons, Promoters and Certain Control Persons

The Company s Code of Conduct, adopted by the Company s Board of Directors and evidenced in writing, provides that no employee of the Company, including an executive officer or director, may engage in activities that create a conflict of interest with the Company unless all relevant details have been disclosed and an appropriate waiver permitting the conduct has been received. An activity constitutes a conflict of interest under the Code if (i) the activity could adversely affect or compete with the Company, (ii) any interest, connection or benefit to the employee or director from the activity could reasonably be expected to cause such employee or director to consider anything other than the best interest of the Company when deliberating and voting on Company matters, or (iii) any interest, connection or benefit to the employee or director from the activity could give such employee or director or a member of his or her family an improper benefit that he or she obtains on account of his or her position within the Company. An executive officer or member of the Board of Directors may only receive a waiver from the Board or any designated committee of the Board, and any waiver granted to an executive officer or director will be disclosed to the Company s stockholders to the extent required by law. The Nominating and Corporate Governance Committee of the Board (or any other committee that is designated) is responsible for administering the Code for executive officers and directors.

IV. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Objectives of Executive Compensation. The primary objective of our executive compensation program is to align the interests of management with the interests of our stockholders. The executive compensation program is also intended (i) to motivate the performance of management with clearly-defined goals and measures of achievement, (ii) to attract, retain and reward experienced, highly-motivated executives who are capable of leading us effectively and contributing to our long-term growth and profitability, and (iii) to create a clear line-of-sight so that our employees are directly rewarded for the performance of the business over which they have the greatest impact.

Total Compensation Package. We utilize a combination of cash and equity-based compensation to provide appropriate incentives for our executives. Executive officers are eligible to receive a combination of annual base salary, annual cash bonuses, and annual restricted stock and option grants under our Stock Incentive Plan.

In recent years, the Compensation Committee s guiding principle has been that the compensation of our officers should be set so that, in a year when target performance is achieved, the average total compensation (including the value of restricted shares and stock options) of officers is, in general, at approximately the 75th percentile of compensation paid to comparable officers at REITs that are approximately similar in size to AvalonBay. The particular REITs used for comparison in 2006 are:

AMB Property Corporation
Apartment Investment and Management Company
Archstone-Smith Trust
Boston Properties, Inc.
Camden Property Trust
Crescent Real Estate Equities Company
Developers Diversified Realty Corporation
Duke Realty Corporation
Equity Residential
Health Care Property Investors, Inc.
Kimco Realty Corporation
Liberty Property Trust
Macerich Company
Mack-Cali Realty Corporation
ProLogis
Public Storage, Inc.
United Dominion Realty Trust, Inc.

Our target performance is consistent with our strategic business objectives of providing stockholder returns that exceed those of our peers, developing properties at above average yields and achieving strong penetration in our chosen high-barrier-to-entry markets. Our total compensation is generally targeted at the 75th percentile to match the level of performance that we expect to achieve relative to our peer group and, in concert with our pay-for-performance model, is designed to attract and retain the best talent. In some cases the actual target for a particular officer could be more or less than the 75th percentile based on his/her individual performance, experience, tenure, or compensation relative to other officers. In order to set the appropriate level of compensation in accordance with this principle, the Compensation Committee has reviewed market compensation data provided by FPL Associates, L.P., a nationally recognized compensation consulting firm specializing in the real estate industry.

The methodology that the Compensation Committee used in setting target compensation for 2007 was similar to what was done in 2006, which includes an analysis of the market data from similar-sized REITs, a review of performance goals, and a comparison of internal officer compensation.

In addition to setting total compensation of its executive officers, the Compensation Committee has structured the compensation so that, in a year in which target performance is achieved, the following components comprise the relative proportions of total compensation:

Officer	Base Salary	Cash Bonus	Long-Term Equity
Mr. Blair	25%	25%	50%
Mr. Sargeant	25%	25%	50%
Mr. Naughton	25%	25%	50%
Mr. Horey	25%	25%	50%
Ms. Dunn	35%	25%	40%

Our compensation at the senior executive levels is established to ensure that our top officers rewards are most focused on long-term goals, objectives, and achievements. The proportion of compensation for senior level officers is more heavily weighted in long-term equity. The allocation between base salary, cash bonus and long-term equity for Ms. Dunn, the fifth named executive officer, is slightly different because her position within the Company, as Senior Vice President of Investments, has a different focus from that of the other executive officers. In accordance with SEC rules, the five named executive officers were identified based upon title (for CEO and CFO) and total compensation (as calculated in accordance with the *Summary Compensation Table*) of officers who are in charge of a principal business unit, division or function.

Base Salary. The Compensation Committee establishes the base salary levels for our key executives annually based on the criteria described above. The base salary paid to each of the named executive officers in 2006 is set forth in the *Summary Compensation Table* on page 19 of this Proxy Statement. For 2007, the Compensation Committee has determined that the following base salaries will be paid:

Mr. Blair	$791,700
Mr. Sargeant	$445,000
Mr. Naughton	$525,000
Mr. Horey	$365,000
Ms. Dunn	$315,000

Cash Bonus. Under our corporate bonus program, the Compensation Committee may award annual cash bonuses to officers based on the following three elements: (1) the achievement of specific Company performance goals, (2) the performance of the officer s business unit, and (3) the performance of the individual officer. Various weightings are applied to each category based on each officer s position and his or her ability to impact performance for the Company as a whole or a particular business unit. Each year, including for 2006, the Compensation Committee sets a threshold, target and maximum cash bonus as a percent of actual base salary earnings for each officer that may be awarded if certain goals are achieved. Threshold is set at 50% of target, and maximum is set at 200% of target.

For 2006, the following categories of performance goals and relative weightings were approved by the Compensation Committee and ratified by those members of the Board of Directors who would qualify for service on the Compensation Committee:

	Weight of Each Component		
Name	**Corporate**	**Business Unit**	**Individual**
Mr. Blair	75%		25%
Mr. Sargeant	75%		25%
Mr. Naughton	75%		25%
Mr. Horey	40%	50%	10%
Ms. Dunn	30%	50%	20%

The corporate component of the annual bonus included three categories of performance goals, with weightings applicable to each goal set in advance based on a review of recommendations made by management. The following corporate goals were established for 2006:

(i) The achievement of a targeted level of Operating Funds from Operations (Operating FFO) per share, both on an absolute and relative basis, composed 55% of total corporate performance. Operating FFO is defined as FFO (as defined by the National Association of Real Estate Investment Trusts and explained in the Company s Annual Report to Stockholders accompanying this proxy statement) excluding gains or losses on the sale of undepreciated real estate (generally land) as well as certain other non-routine or non-recurring items. For determining relative

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performance, the peer group of multifamily REITs we compare to consisted of: AIMCO, Archstone-Smith, BRE, Camden, Equity Residential, Essex, Home Properties, and United Dominion (collectively, the Bonus Peer Group). Operating FFO on an absolute basis was set at $3.89 per share for the achievement of threshold performance, $4.06 per share for the achievement of target performance, and $4.23 per share for the achievement of maximum performance. Actual 2006 Operating FFO on an absolute basis was determined to be $4.20 per share. For Operating FFO relative to the Bonus Peer Group, a 6th place ranking was threshold performance, 3rd place ranking was target performance (since a 3rd place ranking approximates our philosophy of targeting compensation at the 75th percentile of our peers) and maximum performance was 1st place. For 2006, the Compensation Committee determined that the Company achieved a 1st place ranking against this peer group.

(ii) The operating performance of development and redevelopment activities, as compared to the original budgeted performance, made up 15% of the total corporate performance. Meeting budgeted net operating income (NOI) for this component was determined to be target performance, 10% below budgeted NOI was threshold performance, and exceeding budgeted NOI by 10% or more was maximum performance for this component. In 2006, the Compensation Committee determined that the Company s development and redevelopment activities exceeded budgeted NOI by 1.1%, so performance was slightly above target. Budgeted NOI for this category, based upon 24 communities, was approximately $49.2 million, while actual NOI was approximately $49.8 million.

(iii) The effectiveness of management (defined as the execution of business plans, flexibility in decision making, portfolio management, and focus on the correct organizational priorities) and progress on various corporate initiatives made up 30% of the total corporate performance metrics for 2006. For 2006, the Compensation Committee determined that achievement on this category was at 50% of maximum.

Overall, achievement of the corporate component of performance for 2006 for cash bonuses was determined to be 75.9% of maximum.

In Mr. Horey s case, the Business Unit component was based on the achievements of the Property Operations group, as Mr. Horey is the senior executive officer with direct oversight for that group. Six metrics were established for the Property Operations group: (i) Same Store Sales relative to budget, (ii) Same Store Sales relative to peer group, (iii) NOI for other stabilized communities versus budget, (iv) lease-up and redevelopment NOI versus budget, (v) controllable expenses for Same Store Sales versus budget, and (vi) customer service. For 2006, the overall achievement for the Property Operations group was determined to be 73.65% of maximum.

For Ms. Dunn, the Business Unit component was based on the achievements of the Investments group, reflecting her responsibilities as senior officer with direct responsibility for that group s activities. Three criteria were established for the Investments group: performance with respect to (i) acquisitions, (ii) redevelopments, and (iii) dispositions. The Investments group s performance was determined to be 57.05% of maximum for 2006.

Individual performance for Mr. Blair is determined by the Compensation Committee. The Committee also determines individual performance for the other named executive officers after receiving recommendations from Mr. Blair. In addition to the achievement of quantitative business goals, all officers receive individual performance evaluations that include an assessment of their leadership and management skills.

The actual cash bonus paid in 2007 with respect to performance in 2006 for each of the named executive officers is included in the *Summary Compensation Table* on page 19 of this Proxy Statement, under the column Non-Equity Incentive Plan Compensation.

Cash bonuses payable with respect to performance in 2007 are expected to be based on the same types of goals.

Long-Term Incentive Awards. The Compensation Committee views the granting of stock options and restricted stock as a means of aligning management and stockholder interests and incenting or rewarding management s long-term perspective. Stock options and restricted stock granted under our Stock Incentive Plan are designed to provide long-term performance incentives and rewards tied to the price of our Common Stock. Options granted vest over a period of three years. 20% of each restricted stock award vests on March 1 in the year of grant; the remaining 80% vests in equal annual installments on March 1 of each of the following four years.

Under our long-term incentive awards program, the Compensation Committee may award long-term incentive compensation to officers based on the achievement of specific Company performance goals and the performance of the officer s business unit. For 2006, the weightings applied to the two categories of goals for each of the named executive officers were as follows:

	Weight of Each Component	
Name	**Corporate**	**Business Unit**
Mr. Blair	100 %	
Mr. Sargeant	100 %	
Mr. Naughton	100 %	
Mr. Horey	67 %	33 %
Ms. Dunn	50 %	50 %

In each case, the corporate component of the long-term incentive included three categories of performance goals. The weightings applicable to each goal were set in advance and proposed by management to the Compensation Committee during its regularly scheduled January and February 2006 meetings.

(i) The achievement of Total Stockholder Return as measured on both an absolute basis (based on a three-year average) and a relative basis (as compared to the Bonus Peer Group on a one-year basis) comprised 50% of total corporate performance. Threshold Total Stockholder Return on an absolute basis was set at 6%, Target was set at 9%, and Maximum was 12%. For 2006, total stockholder return (three-year average) was 45.0%. For total stockholder return relative to the Bonus Peer Group (one-year basis), a 6th place ranking was threshold performance, a 3rd place ranking was target, and maximum performance was 1st place. In 2006, the Company achieved a 3rd place ranking against this peer group.

(ii) The multiple of the price of our common stock compared to our FFO per share (as measured against the Bonus Peer Group) represented 20% of the total corporate performance. Threshold for this factor was set at 6th place, target was a 3rd place ranking, and 1st place was maximum performance. In 2006, the Company s ranking for this criterion was 1st.

(iii) The effectiveness of management and progress on various corporate initiatives made up 30% of the total corporate performance. Effectiveness of management and the progress of management on previously identified corporate initiatives was determined by the Compensation Committee and approved and ratified by the Compensation Committee and the independent directors of the full Board who would qualify for service on the Compensation Committee. For 2006, the Compensation Committee determined that achievement on this category was at 100% of maximum.

Business Unit metrics were similar to those described above used to calculate cash bonuses.

For 2006, corporate achievement of the long-term incentive measures was 93.8% of maximum, achievement for the Property Operations group was 86.8% of maximum and achievement for the Investments Group was 78.5% of maximum. Based on those achievement levels and the formal approval and ratification of those determinations by the Compensation Committee, the actual numbers of options and shares of restricted stock granted to the named executive officers in 2007, with respect to performance in 2006, are set forth in the table below. Please note that the dollar value for long-term incentive awards included in the *Summary Compensation Table* under the Stock Awards and Option Awards columns represent the financial statement (GAAP) expense that we recognized in 2006 with respect to awards vesting in 2006, based on specific accounting standards, while the *Grants of Plan-Based Awards Table* sets out under All Other Stock Awards and All Other Option Awards, the actual number of shares underlying options and shares of restricted stock granted to the named executive officers on February 9, 2006, with respect to performance in 2005. The following table sets out the actual number of options and number of shares of restricted stock granted to the named executive officers on February 8, 2007, with respect to performance in 2006.

Named Executive Officer	**Number of Options(1)**	**Number of Shares of Restricted Stock(2)**
Bryce Blair	73,568	11,757
Thomas J. Sargeant	35,922	5,731
Timothy J. Naughton	44,010	7,013
Leo S. Horey	17,974	2,873
Lili F. Dunn	7,000	1,119

(1) The options set forth in this column were granted on February 8, 2007, with an exercise price of $147.75 per share and vest over a three-year term.

(2) The shares of restricted stock set forth in this column were granted on February 8, 2007. 20% of such grants vest on March 1 of the year of grant and the remaining 80% of the shares vest in four equal annual installments on the anniversaries of that date, subject to accelerated vesting (in the case of termination of employment without cause, or upon death, disability or retirement, or upon a change in control of the Company (as defined in the Stock Incentive Plan)) or forfeiture of unvested shares (in the case of termination of employment for any other reason.) Dividends are payable on the shares at the same rate as dividends paid on all outstanding shares of the Company s common stock.

In determining the number of shares underlying options that were awarded, as listed above, the Compensation Committee divided (x) one-third of the dollar value it had determined to award as long-term incentives, by (y) a three-year average of the Black-Scholes value of options awarded in 2005, 2006 and 2007 (using a December 31, 2006 value to approximate for the 2007 award). In determining the number of restricted shares that were awarded, as listed above, the Compensation Committee divided (x) the remaining two-thirds of the long-term incentive award dollar value by (y) the closing price of our common stock on the date of the award. In addition, the Compensation Committee, based upon a recommendation by Mr. Blair, determined to award to Mr. Naughton and Mr. Sargeant an additional $300,000 and $150,000, respectively, in long-term incentives, divided between options (one-third) and shares of restricted stock (two-thirds) as described above. These additional grants, which were made to reflect extraordinary performance and achievements during the year, are included in the amounts identified in the table above.

For awards to be granted in 2008 with respect to performance in 2007, it is expected that the same types of goals will be used. The three year methodology for determining the number of shares underlying option grants is under review by the Compensation Committee.

Other Benefits. Pursuant to our Deferred Compensation Plan, certain employees, including the named executive officers, may defer up to 10% of base annual salary and up to 25% of annual cash bonus on a pre-tax basis and receive a tax-deferred return on those deferrals. Deferral elections are made by eligible employees during an open enrollment period each year for amounts to be earned in the following year. Participating employees direct the deemed investment of their deferral accounts by selecting among certain available Investment Funds.

We have an employee stock purchase plan that allows our employees the opportunity to purchase up to $25,000 of our common stock per year at a 15% discount off of the lower of the last reported sale price of our common stock on the NYSE on the beginning date or ending date of the purchase period.

In addition, we maintain a 401(k) Retirement Savings plan and annually match 50% of the first six percent of base salary and bonus contributed to such plan by any employee (subject to certain tax limitations). We offer medical, dental and vision plans, a portion of the cost of which is paid by the employee. We also provide life insurance, accidental dismemberment insurance, and short-term and long-term disability insurance for each employee. Messrs. Blair, Sargeant, Naughton and Horey each have employment agreements with the Company pursuant to which certain other benefits are provided to them. The terms of each of such employment agreements are described in Potential Payments Upon Termination or Change-in-Control below.

Practices with regard to dates and pricing of stock and option grants. The Compensation Committee determines the number of shares underlying options and shares of restricted stock to award to each officer. Those members of the Board of Directors who qualify for service on the Compensation Committee are presented with this list of option awards to review and ratify at the Board s regularly scheduled February meeting. The date of the award is the date of the regularly-scheduled February meeting of the full Board of Directors at which those qualifying directors vote to ratify the option amount. The exercise price of each option granted is the closing price of our common stock that day.

In all cases, our options are granted (i) on the date of a regularly-scheduled full Board meeting at which actions of the Compensation Committee are reviewed and ratified by the independent directors of the Board who qualify for service on the Compensation Committee, (ii) on the date of a new hire s start with the Company as approved by the Chairman/CEO in advance of the start date, (iii) on the date of approval by the Chairman/CEO for retention or recognition purposes up to a Board-authorized maximum value of $100,000 or (iv) on the date of a terminated senior executive s departure from the Company as set out in formal terms approved by the Compensation Committee in advance. Option exercise prices are determined by the NYSE closing price of our common stock on the date of grant. Additionally, all officers must receive prior authorization for any purchase or sale of our common stock, which are generally only given during approved trading windows established in advance and based upon earnings release dates.

Section 162(m). The SEC requires that this report comment upon the Company s policy with respect to Section 162(m) of the Internal Revenue Code of 1986, as amended, which limits the deductibility on the Company s tax return of compensation over $1 million to any of the Named Executive Officers of the Company unless, in general, the compensation is paid pursuant to a plan which is performance-related, non-discretionary and has been approved by the Company s stockholders. The Company believes that, because it qualifies as a REIT under the Code and pays dividends sufficient to minimize federal income taxes, the payment of compensation that does not satisfy the requirements of Section 162(m) will generally not affect the Company s net income. To the extent that compensation does not qualify for a deduction under Section 162(m), a larger portion of stockholder distributions may be subject to federal income taxation as dividend income rather than return of capital. The Company does not believe that Section 162(m) will materially affect the taxability of stockholder distributions, although no assurance can be given in this regard due to the variety of factors that affect the tax position of each stockholder. For these reasons, the Compensation Committee s compensation policy and practices are not directly guided by considerations relating to Section 162(m).

Compensation Committee Report

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee

Amy P. Williams (Chair)
John J. Healy, Jr.
H. Jay Sarles

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of John J. Healy, Jr., H. Jay Sarles and Amy P. Williams. None of them has served as an officer of the Company or any of its subsidiaries. No member of the Compensation Committee has any other business relationship or affiliation with the Company or any of its subsidiaries (other than his or her service as a director).

Summary Compensation Table

The table below summarizes the total compensation paid or earned by each of the named executive officers for the fiscal year ended December 31, 2006. The named executive officers were not entitled to receive payments that would be characterized as Bonus payments for the fiscal year ended December 31, 2006, which would otherwise be disclosed under a column (d) as provided in Item 402(c)(2)(iv) of Regulation S-K. Cash bonuses paid in 2006 under our incentive compensation program are included in column (g).

(a)	(b)	(c)	(e)	(f)	(g)	(h)	(i)	(j)
Name and Principal Position	**Year**	**Salary ($)**	**Stock Awards ($)(1)**	**Option Awards ($)(2)**	**Non-Equity Incentive Plan Compensation ($)(3)**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(4)**	**All Other Compensation ($)(5)**	**Total ($)**
Bryce Blair Chairman & CEO	2006	754,279	1,629,684	1,105,653	1,066,739		212,448	4,768,803
Thomas J. Sargeant CFO	2006	420,464	738,385	513,795	535,177		109,126	2,316,947
Timothy J. Naughton President	2006	487,637	700,760	619,705	689,641		124,798	2,622,541
Leo S. Horey Executive Vice President Operations	2006	346,188	375,867	280,842	401,329		63,939	1,468,165
Lili F. Dunn Senior Vice President Investments	2006	298,077	177,482	121,944	262,111		25,105	884,719

(1) The amounts in column (e) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with FAS 123(R) of restricted stock awards made pursuant to the Company s Stock Incentive Plan, and thus include amounts from awards granted in and prior to 2006. The value is based on the closing price of our common stock on the NYSE on the date of grant.

(2) The amounts in column (f) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with FAS 123(R) of awards of stock options made pursuant to the Company s Stock Incentive Plan, and thus include amounts from awards granted in and prior to 2006. Assumptions used in the calculation of this amount are included in footnote 10 to the Company s audited financial statements for the fiscal year ended December 31, 2006 included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2007.

(3) The amounts in column (g) reflect the cash awards to the named individuals determined by the Compensation Committee in January 2007 (based upon the achievement of performance metrics determined in February 2006 as more fully described in the Compensation Discussion and Analysis above) and ratified on February 8, 2007 by the members of the full Board of Directors who would be qualified to serve on the Compensation Committee.

(4) All earnings under the Company s nonqualified deferred compensation program are determined by reference to returns of actual mutual funds and the Company does not consider such earnings to be above market.

(5) The amounts shown in column (i) include, for each named executive officer, a car allowance, amounts contributed by the Company to the named executive officers 401K accounts, and dividends paid on unvested shares of restricted stock during 2006 in the following amounts: Mr. Blair $122,295; Mr. Sargeant $57,049; Mr. Naughton $67,230; Mr. Horey $35,116; and Ms. Dunn $16,446. The amounts shown in column (i) for Messrs. Blair, Sargeant, Naughton and Horey also include a general executive benefit payment, and premiums paid by the Company in 2006 for Company-owned life insurance policies on the lives of such named executive officers for which the Company has endorsed the respective policies so that any death benefit, in excess of the cumulative premiums paid by the Company, will be paid to the beneficiaries of the deceased, which premiums were in the following amounts for each officer (such amounts representing payment of a whole-life premium which builds cash value in the Company-owned policy to support future repayment of the cumulative premiums; see Potential Payments Upon Termination or Change-in-Control Endorsement Split Dollar Agreements): Mr. Blair $58,759; Mr. Sargeant $27,988; Mr. Naughton $33,381; and Mr. Horey $10,723. The amount shown for Ms. Dunn includes premiums in the amount of $560 paid by the Company for a standard term life insurance policy in the amount of $750,000. The amounts shown in column (i) for Messrs. Blair, Sargeant and Naughton also include disability insurance premiums paid by the Company in 2006 for disability insurance policies in their names.

Grants of Plan-Based Awards

The table below sets out the grants made to the named executive officers in 2006 under our Stock Incentive Plan and otherwise. The amounts in columns I and II reflect the threshold, target and maximum cash and equity incentive awards established in 2006, for which actual awards were made in February 2007. The amounts in columns III and IV reflect the actual stock and option awards made under the Stock Incentive Plan in February 2006 with respect to performance in 2005.

		I			II			III	IV		
Name	**Grant Date**	**Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)**			**Estimated Possible Payouts Under Equity Incentive Plan Awards (2)**			**All other Stock Awards: Number of Shares of Stock or units (#)(3)**	**All other Option Awards: Number of Securities Underlying Options (#)(4)**	**Exercise or Base Price of Option Awards ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards ($)(5)**
		Threshold ($)	**Target ($)**	**Maximum ($)**	**Threshold ($)**	**Target ($)**	**Maximum ($)**				
(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	**(g)**	**(h)**	**(i)**	**(j)**	**(k)**	**(l)**
Bryce Blair	2/9/2006	380,625	761,250	1,522,500							