

MID AMERICA APARTMENT COMMUNITIES INC  
Form 10-Q  
May 02, 2014

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

FORM 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014  
or

•• TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-12762 (Mid-America Apartment Communities, Inc.)  
Commission File Number 333-190028-01 (Mid-America Apartments, L.P.)

MID-AMERICA APARTMENT COMMUNITIES, INC.  
MID-AMERICA APARTMENTS, L.P.  
(Exact name of registrant as specified in its charter)

Tennessee (Mid-America Apartment Communities, Inc.)	62-1543819
Tennessee (Mid-America Apartments, L.P.)	62-1543816
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6584 Poplar Avenue, Memphis, Tennessee, 38138	
(Address of principal executive offices) (Zip Code)	
(901) 682-6600	
(Registrant's telephone number, including area code)	

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Mid-America Apartment Communities, Inc.	YES R	NO o
Mid-America Apartments, L.P.	YES R	NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files).

Mid-America Apartment Communities, Inc.	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
Mid-America Apartments, L.P.	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Mid-America Apartment Communities, Inc.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)			

Mid-America Apartments, L.P.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Mid-America Apartment Communities, Inc.	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
Mid-America Apartments, L.P.	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Number of Shares Outstanding at April 28, 2014
Common Stock, \$0.01 par value	75,009,068

MID-AMERICA APARTMENT COMMUNITIES, INC.  
MID-AMERICA APARTMENTS, L.P.

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## Explanatory Note

This report combines the quarterly reports on Form 10-Q for the quarter ended March 31, 2014 of Mid-America Apartment Communities, Inc., a Tennessee corporation and Mid-America Apartments, L.P., a Tennessee limited partnership, of which Mid-America Apartment Communities, Inc. is the sole general partner. MAA and its 94.7% owned subsidiary, MAALP, are both required to file periodic reports under the Securities Exchange Act of 1934, as amended.

Unless the context otherwise requires, all references in this report to "MAA" refers only to Mid-America Apartment Communities, Inc., and not to any of its consolidated subsidiaries. Unless the context otherwise requires, all references in this Report to "we," "us," "our," or the "Company" refer collectively to Mid-America Apartment Communities, Inc., together with its consolidated subsidiaries, including the Mid-America Apartments, L.P. Unless the context otherwise requires, the references in this Report to the "Operating Partnership" or "MAALP" refer to Mid-America Apartments, L.P. together with its consolidated subsidiaries. "Common stock" refers to the common stock of MAA and "shareholders" means the holders of shares of MAA's common stock. The limited partnership interests of the Operating Partnership are referred to as "OP Units" and the holders of the OP Units are referred to as "unitholders".

As of March 31, 2014, MAA owned 75,009,303 units (or approximately 94.7%) of the limited partnership interests of the Operating Partnership. MAA conducts substantially all of its business and holds substantially all of its assets through the Operating Partnership, and by virtue of its ownership of the OP Units and being the Operating Partnership's sole general partner, MAA has the ability to control all of the day-to-day operations of the Operating Partnership.

We believe combining the quarterly reports on Form 10-Q of MAA and the Operating Partnership, including the notes to the consolidated financial statements, into this single report results in the following benefits:

- enhances investors' understanding of MAA and the Operating Partnership by enabling investors to view the business as a whole in the same manner that management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure in this report applies to both MAA and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

Management operates MAA and the Operating Partnership as one business. The management of the Company is comprised of individuals who are officers of MAA and employees of the Operating Partnership. We believe it is important to understand the few differences between MAA and the Operating Partnership in the context of how MAA and the Operating Partnership operate as a consolidated company. MAA and the Operating Partnership are structured as an "umbrella partnership REIT," or UPREIT. MAA's interest in the Operating Partnership entitles MAA to share in cash distributions from, and in the profits and losses of, the Operating Partnership in proportion to MAA's percentage interest therein and entitles MAA to vote on substantially all matters requiring a vote of the limited partners. MAA's only material asset is its ownership of limited partner interests in the Operating Partnership; therefore, MAA does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time-to-time and guaranteeing certain debt of the Operating Partnership. The Operating Partnership holds, directly or indirectly, all of our real estate assets. Except for net proceeds from public equity issuances by MAA, which are contributed to the Operating Partnership in exchange for limited partner interests, the Operating Partnership generates the capital required by the Company's business through the Operating Partnership's operations, direct or indirect incurrence of indebtedness and issuance of partnership units.

The presentation of MAA's shareholders' equity and the Operating Partnership's capital are the principal areas of difference between the consolidated financial statements of MAA and those of the Operating Partnership. MAA's

shareholders' equity may include shares of preferred stock, shares of common stock, additional paid-in capital, cumulative earnings, cumulative distributions, noncontrolling interest, preferred units, treasury shares, accumulated other comprehensive income and redeemable common units. The Operating Partnership's capital may include common capital and preferred capital of the general partner (MAA), limited partners' preferred capital, limited partners' noncontrolling interest, accumulated other comprehensive income and redeemable common units. Redeemable common units represent the number of outstanding limited partnership units as of the date of the applicable balance sheet, valued at the greater of the closing market price of MAA's common stock or the aggregate value of the individual partners' capital balances. Each redeemable unit may be redeemed by the holder thereof for either cash equal to the fair market value of one share of common stock of MAA at the time of such redemption or, at the option of MAA, one share of common stock of MAA.

In order to highlight the material differences between MAA and the Operating Partnership, this Report includes sections that separately present and discuss areas that are materially different between MAA and the Operating Partnership, including:

- the consolidated financial statements in Item 1 of this report;
- certain accompanying notes to the financial statements, including Note 3 - Earnings per Common Share of MAA and Note 4 - Earnings per OP Unit of MAALP; and Note 10 - Shareholders' Equity of MAA and Note 11 - Partners' Capital of MAALP;
- the certifications of the Chief Executive Officer and Chief Financial Officer of MAA included as Exhibits 31 and 32 to this report.

In the sections that combine disclosure for MAA and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership (directly or indirectly through one of its subsidiaries) is generally the entity that enters into contracts, holds assets and issues debt, management believes this presentation is appropriate for the reasons set forth above and because the business is one enterprise and we operate the business through the Operating Partnership.

Mid-America Apartment Communities, Inc.  
Condensed Consolidated Balance Sheets  
March 31, 2014 and December 31, 2013  
(Unaudited)  
(Dollars in thousands, except share data)

	March 31, 2014	December 31, 2013
Assets:		
Real estate assets:		
Land	\$862,833	\$871,316
Buildings and improvements	6,467,714	6,366,701
Furniture, fixtures and equipment	201,361	199,573
Development and capital improvements in progress	103,100	166,048
	7,635,008	7,603,638
Less accumulated depreciation	(1,191,115)	(1,124,207)
	6,443,893	6,479,431
Undeveloped land	59,191	63,850
Corporate properties, net	7,919	7,523
Investments in real estate joint ventures	2,982	5,499
Real estate assets, net	6,513,985	6,556,303
Cash and cash equivalents	121,901	89,333
Restricted cash	37,876	44,361
Deferred financing costs, net	16,304	17,424
Other assets	57,356	91,637
Goodwill	4,106	4,106
Assets held for sale	34,135	38,761
Total assets	\$6,785,663	\$6,841,925
Liabilities and Shareholders' Equity:		
Liabilities:		
Secured notes payable	\$1,785,161	\$1,790,935
Unsecured notes payable	1,677,898	1,681,783
Accounts payable	15,174	15,067
Fair market value of interest rate swaps	17,937	20,015
Accrued expenses and other liabilities	197,997	206,190
Security deposits	9,522	9,270
Liabilities associated with assets held for sale	—	78
Total liabilities	3,703,689	3,723,338
Redeemable stock	4,828	5,050
Shareholders' equity:		
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 75,009,303 and 74,830,726 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively <sup>(1)</sup>	749	747
Additional paid-in capital	3,604,117	3,599,549
Accumulated distributions in excess of net income	(694,150)	(653,593)

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Accumulated other comprehensive income	2,691	108
Total MAA shareholders' equity	2,913,407	2,946,811
Noncontrolling interest	163,739	166,726
Total equity	3,077,146	3,113,537
Total liabilities and equity	\$6,785,663	\$6,841,925

Number of shares issued and outstanding represent total shares of common stock regardless of classification on the consolidated balance sheet. The number of shares classified as redeemable stock on the consolidated balance sheet for March 31, 2014 and December 31, 2013 are 77,312 and 83,139, respectively.

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc.  
 Condensed Consolidated Statements of Operations  
 Three months ended March 31, 2014 and 2013  
 (Unaudited)  
 (Dollars in thousands, except per share data)

	Three months ended March 31,	
	2014	2013
Operating revenues:		
Rental revenues	\$220,988	\$117,705
Other property revenues	22,402	10,038
Total property revenues	243,390	127,743
Management fee income	97	177
Total operating revenues	243,487	127,920
Property operating expenses:		
Personnel	24,909	13,981
Building repairs and maintenance	6,399	3,129
Real estate taxes and insurance	31,131	15,488
Utilities	13,478	6,565
Landscaping	5,408	2,866
Other operating	16,038	8,492
Depreciation and amortization	90,013	32,195
Total property operating expenses	187,376	82,716
Acquisition expense	11	10
Property management expenses	7,011	5,108
General and administrative expenses	4,342	3,239
Merger related expenses	2,076	—
Integration related expenses	3,842	—
Income from continuing operations before non-operating items	38,829	36,847
Interest and other non-property income	160	47
Interest expense	(30,676 )	(15,545 )
Loss on debt extinguishment/modification	—	(169 )
Amortization of deferred financing costs	(1,311 )	(804 )
Net casualty (loss) gain after insurance and other settlement proceeds	(10 )	16 )
Income before income tax expense	6,992	20,392
Income tax expense	(270 )	(223 )
Income from continuing operations before (loss) gain from real estate joint ventures	6,722	20,169
(Loss) gain from real estate joint ventures	(24 )	54 )
Income from continuing operations	6,698	20,223
Discontinued operations:		
Income from discontinued operations before gain on sale	416	1,782
Net casualty loss after insurance and other settlement proceeds on discontinued operations	(2 )	— )
Gain on sale of discontinued operations	5,481	—
Income before gain on sale of properties	12,593	22,005
Gain on sale of depreciable assets excluded from discontinued operations	2,564	—
Gain on sale of non-depreciable assets	557	—
Consolidated net income	15,714	22,005
Net income attributable to noncontrolling interests	848	825
Net income available for MAA common shareholders	\$14,866	\$21,180

Earnings per common share - basic:

Income from continuing operations available for common shareholders	\$0.12	\$0.46
Discontinued property operations	0.08	0.04
Net income available for common shareholders	\$0.20	\$0.50

Earnings per common share - diluted:

Income from continuing operations available for common shareholders	\$0.12	\$0.46
Discontinued property operations	0.08	0.04
Net income available for common shareholders	\$0.20	\$0.50

Dividends declared per common share	\$0.7300	\$0.6950
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See accompanying notes to condensed consolidated financial statements.

Mid-America Apartment Communities, Inc.  
 Condensed Consolidated Statements of Comprehensive Income  
 Three months ended March 31, 2014 and 2013  
 (Unaudited)  
 (Dollars in thousands)

	Three months ended March 31,	
	2014	2013
Consolidated net income	\$15,714	\$22,005
Other comprehensive income:		
Unrealized losses from the effective portion of derivative instruments	(997 )	(179 )
Reclassification adjustment for losses included in net income for the effective portion of derivative instruments	3,725	4,545
Total comprehensive income	18,442	26,371
Less: comprehensive income attributable to noncontrolling interests	(992 )	(1,003 )
Comprehensive income attributable to MAA	\$17,450	\$25,368

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc.  
 Condensed Consolidated Statements of Cash Flows  
 Three months ended March 31, 2014 and 2013  
 (Unaudited)  
 (Dollars in thousands)

	Three months ended March 31,	
	2014	2013
Cash flows from operating activities:		
Consolidated net income	\$15,714	\$22,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(6 )	(10 )
Depreciation and amortization	91,469	34,237
Stock compensation expense	948	630
Exercise of stock options	1,775	—
Redeemable stock issued	145	159
Amortization of debt premium	(7,402 )	(225 )
Loss (gain) from investments in real estate joint ventures	24	(54 )
Loss on debt extinguishment	—	169
Derivative interest expense	427	267
Gain on sale of non-depreciable assets	(557 )	—
Gain on sale of depreciable assets	(2,564 )	—
Gain on sale of discontinued operations	(5,481 )	—
Net casualty loss (gain) and other settlement proceeds	12	(16 )
Changes in assets and liabilities:		
Restricted cash	16,783	159
Other assets	5,664	(3,466 )
Accounts payable	106	1,086
Accrued expenses and other	(3,465 )	(12,985 )
Security deposits	240	161
Net cash provided by operating activities	113,832	42,117
Cash flows from investing activities:		
Purchases of real estate and other assets	(49,450 )	(32,561 )
Normal capital improvements	(10,502 )	(8,701 )
Construction capital and other improvements	(1,843 )	(576 )
Renovations to existing real estate assets	(1,356 )	(2,187 )
Development	(16,279 )	(12,240 )
Distributions from real estate joint ventures	8,865	4,964
Contributions to real estate joint ventures	—	(16 )
Proceeds from disposition of real estate assets	93,127	76
Funding of escrow for future acquisitions	(10,298 )	—
Net cash provided by (used in) investing activities	12,264	(51,241 )
Cash flows from financing activities:		
Net change in credit lines	(17,936 )	19,000
Proceeds from notes payable	344	—
Principal payments on notes payable	(17,986 )	(1,370 )
Payment of deferred financing costs	(145 )	(120 )
Repurchase of common stock	(285 )	(673 )
Proceeds from issuances of common shares	227	22,058

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Distributions to noncontrolling interests	(3,086 )	(1,204 )
Dividends paid on common shares	(54,661 )	(29,418 )
Net cash (used in) provided by financing activities	(93,528 )	8,273
Net increase (decrease) in cash and cash equivalents	32,568	(851 )
Cash and cash equivalents, beginning of period	89,333	9,075
Cash and cash equivalents, end of period	\$121,901	\$8,224

Supplemental disclosure of cash flow information:

Interest paid	\$30,408	\$16,400
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Supplemental disclosure of noncash investing and financing activities:

Conversion of units to shares of common stock	\$744	\$443
Accrued construction in progress	\$9,971	\$7,126
Interest capitalized	\$513	\$448
Marked-to-market adjustment on derivative instruments	\$2,300	\$4,096
Fair value adjustment on debt assumed	\$1,651	\$—
Loan assumption	\$31,692	\$—

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartments, L.P.

Condensed Consolidated Balance Sheets

March 31, 2014 and December 31, 2013

(Dollars in thousands, except unit data)

	March 31, 2014	December 31, 2013
Assets:		
Real estate assets:		
Land	\$862,833	\$871,316
Buildings and improvements	6,467,714	6,366,701
Furniture, fixtures and equipment	201,361	199,573
Development and capital improvements in progress	103,100	166,048
	7,635,008	7,603,638
Less accumulated depreciation	(1,191,115)	(1,124,207)
	6,443,893	6,479,431
Undeveloped land	59,191	63,850
Corporate properties, net	7,919	7,523
Investments in real estate joint ventures	2,982	5,499
Real estate assets, net	6,513,985	6,556,303
Cash and cash equivalents	121,901	89,333
Restricted cash	37,876	44,361
Deferred financing costs, net	16,304	17,424
Other assets	57,356	91,637
Goodwill	4,106	4,106
Assets held for sale	34,135	38,761
Total assets	\$6,785,663	\$6,841,925
Liabilities and Capital:		
Liabilities:		
Secured notes payable	\$1,785,161	\$1,790,935
Unsecured notes payable	1,677,898	1,681,783
Accounts payable	15,174	15,067
Fair market value of interest rate swaps	17,937	20,015
Accrued expenses and other liabilities	197,997	206,190
Security deposits	9,522	9,270
Due to general partner	19	19
Liabilities associated with assets held for sale	—	78
Total liabilities	3,703,708	3,723,357
Redeemable units	4,828	5,050
Capital:		
General partner: 75,009,303 OP Units outstanding at March 31, 2014 and 74,830,726 OP Units outstanding at December 31, 2013 <sup>(1)</sup>	2,910,649	2,946,598
Limited partners: 4,208,526 OP Units outstanding at March 31, 2014 and 4,227,384 OP Units outstanding at December 31, 2013 <sup>(1)</sup>	163,577	166,746

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Accumulated other comprehensive income	2,901	174
Total capital	3,077,127	3,113,518
Total liabilities and capital	\$6,785,663	\$6,841,925

Number of units outstanding represent total OP Units regardless of classification on the consolidated balance sheet.

(1) The number of units classified as redeemable units on the consolidated balance sheet at March 31, 2014 and December 31, 2013 are 77,312 and 83,139, respectively.

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartments, L.P.  
 Condensed Consolidated Statements of Operations  
 Three months ended March 31, 2014 and 2013  
 (Unaudited)  
 (Dollars in thousands, except per unit data)

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	2014	2013
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Total operating revenues	243,487	127,920
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Personnel	24,909	13,981
Building repairs and maintenance	6,399	3,129
Real estate taxes and insurance	31,131	15,488
Utilities	13,478	6,565
Landscaping	5,408	2,866
Other operating	16,038	8,492
Depreciation and amortization	90,013	32,195
Total property operating expenses	187,376	82,716
Acquisition expense	11	10
Property management expenses	7,011	5,108
General and administrative expenses	4,342	3,239
Merger related expenses	2,076	—
Integration related expenses	3,842	—
Income from continuing operations before non-operating items	38,829	36,847
Interest and other non-property income	160	47
Interest expense	(30,676 )	(15,545 )
Loss on debt extinguishment/modification	—	(169 )
Amortization of deferred financing costs	(1,311 )	(804 )
Net casualty (loss) gain after insurance and other settlement proceeds	(10 )	16
Income before income tax expense	6,992	20,392
Income tax expense	(270 )	(223 )
Income from continuing operations before (loss) gain from real estate joint ventures	6,722	20,169
(Loss) gain from real estate joint ventures	(24 )	54
Income from continuing operations	6,698	20,223
Discontinued operations:		
Income from discontinued operations before gain on sale	416	1,570
Net casualty loss after insurance and other settlement proceeds on discontinued operations	(2 )	—
Gain on sale of discontinued operations	5,481	—
Income before gain on sale of properties	12,593	21,793
Gain on sale of depreciable assets excluded from discontinued operations	2,564	—
Gain on sale of non-depreciable assets	557	—
Net income available for Mid-America Apartments, L.P. common unitholders	\$15,714	\$21,793

Earnings per common unit - basic:



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Income from continuing operations available for common unitholders	\$0.12	\$0.46
Income from discontinued operations available for common unitholders	0.08	0.03
Net income available for common unitholders	\$0.20	\$0.49
Earnings per common unit - diluted:		
Income from continuing operations available for common unitholders	\$0.12	\$0.46
Income from discontinued operations available for common unitholders	0.08	0.03
Net income available for common unitholders	\$0.20	\$0.49
Distributions declared per common unit	\$0.7300	\$0.6950

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.  
 Condensed Consolidated Statements of Comprehensive Income  
 Three months ended March 31, 2014 and 2013  
 (Unaudited)  
 (Dollars in thousands)

	Three months ended March 31,	
	2014	2013
Consolidated net income	\$15,714	\$21,793
Other comprehensive income:		
Unrealized losses from the effective portion of derivative instruments	(997 )	(179 )
Reclassification adjustment for losses included in net income for the effective portion of derivative instruments	3,725	4,545
Comprehensive income attributable to Mid-America Apartments, L.P.	\$18,442	\$26,159

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartments, L.P.  
 Condensed Consolidated Statements of Cash Flows  
 Three months ended March 31, 2014 and 2013  
 (Unaudited)  
 (Dollars in thousands)

	Three months ended March 31,	
	2014	2013
Cash flows from operating activities:		
Consolidated net income	\$15,714	\$21,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(6	) (10
Depreciation and amortization	91,469	34,095
Stock compensation expense	948	630
Exercise of unit options	1,775	—
Redeemable units issued	145	159
Amortization of debt premium	(7,402	) (225
Loss (gain) from investments in real estate joint ventures	24	(54
Loss on debt extinguishment	—	169
Derivative interest expense	427	261
Gain on sale of non-depreciable assets	(557	) —
Gain on sale of depreciable assets	(2,564	) —
Gain on sale of discontinued operations	(5,481	) —
Net casualty loss (gain) and other settlement proceeds	12	(16
Changes in assets and liabilities:		
Restricted cash	16,783	160
Other assets	5,664	(2,339
Accounts payable	106	1,097
Accrued expenses and other	(3,465	) (14,837
Security deposits	240	160
Net cash provided by operating activities	113,832	41,043
Cash flows from investing activities:		
Purchases of real estate and other assets	(49,450	) (32,561
Normal capital improvements	(10,502	) (8,667
Construction capital and other improvements	(1,843	) (576
Renovations to existing real estate assets	(1,356	) (2,187
Development	(16,279	) (12,240
Distributions from real estate joint ventures	8,865	4,964
Contributions to real estate joint ventures	—	(16
Proceeds from disposition of real estate assets	93,127	76
Funding of escrow for future acquisitions	(10,298	) —
Net cash provided by (used in) investing activities	12,264	(51,207
Cash flows from financing activities:		
Advances from general partner	—	1,180
Net change in credit lines	(17,936	) 19,000
Proceeds from notes payable	344	—
Principal payments on notes payable	(17,986	) (1,370
Payment of deferred financing costs	(145	) (120
Repurchase of common units	(285	) (673

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Proceeds from issuances of common units	227	22,058
Distributions paid on common units	(57,747 )	(30,622 )
Net cash (used in) provided by financing activities	(93,528 )	9,453
Net increase (decrease) in cash and cash equivalents	32,568	(711 )
Cash and cash equivalents, beginning of period	89,333	8,934
Cash and cash equivalents, end of period	\$121,901	\$8,223
Supplemental disclosure of cash flow information:		
Interest paid	\$30,408	\$16,400
Supplemental disclosure of noncash investing and financing activities:		
Accrued construction in progress	\$9,971	\$7,126
Interest capitalized	\$513	\$448
Marked-to-market adjustment on derivative instruments	\$2,300	\$4,096
Fair value adjustment on debt assumed	\$1,651	\$—
Loan assumption	\$31,692	\$—
See accompanying notes to condensed consolidated financial statements.		

Mid-America Apartment Communities, Inc. and Mid-America Apartments, L.P.  
Notes to Condensed Consolidated Financial Statements  
March 31, 2014 and 2013  
(Unaudited)

1. Basis of Presentation and Principles of Consolidation and Significant Accounting Policies

Unless the context otherwise requires, all references to "we," "us," "our," or the "Company" refer collectively to Mid-America Apartment Communities, Inc., together with its consolidated subsidiaries, including Mid-America Apartments, L.P. Unless the context otherwise requires, all references to "MAA" refers only to Mid-America Apartment Communities, Inc., and not any of its consolidated subsidiaries. Unless the context otherwise requires, the references to the "Operating Partnership" or "MAALP" refer to Mid-America Apartments, L.P. together with its consolidated subsidiaries. "Common stock" refers to the common stock of MAA and "shareholders" means the holders of shares of MAA's common stock. The limited partnership interests of the Operating Partnership are referred to as "OP Units" and the holders of the OP Units are referred to as "unitholders".

As of March 31, 2014, MAA owned 75,009,303 units (or approximately 94.7%) of the limited partnership interests of the Operating Partnership. MAA conducts substantially all of its business and holds substantially all of its assets through the Operating Partnership, and by virtue of its ownership of the OP Units and being the Operating Partnership's sole general partner, MAA has the ability to control all of the day-to-day operations of the Operating Partnership.

We believe combining the notes to the consolidated financial statements results in the following benefits:

- enhances a readers' understanding of MAA and the Operating Partnership by enabling the reader to view the business as a whole in the same manner that management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both MAA and the Operating Partnership.

Management operates MAA and the Operating Partnership as one business. The management of the Company is comprised of individuals who are officers of MAA and employees of the Operating Partnership. We believe it is important to understand the few differences between MAA and the Operating Partnership in the context of how MAA and the Operating Partnership operate as a consolidated company. MAA and the Operating Partnership are structured as an "umbrella partnership REIT," or UPREIT. MAA's interest in the Operating Partnership entitles MAA to share in cash distributions from, and in the profits and losses of, the Operating Partnership in proportion to MAA's percentage interest therein and entitles MAA to vote on substantially all matters requiring a vote of the limited partners. MAA's only material asset is its ownership of limited partner interests in the Operating Partnership; therefore, MAA does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing certain debt of the Operating Partnership. The Operating Partnership holds, directly or indirectly, all of our real estate assets. Except for net proceeds from public equity issuances by MAA, which are contributed to the Operating Partnership in exchange for OP Units, the Operating Partnership generates the capital required by our business through the Operating Partnership's operations, direct or indirect incurrence of indebtedness and issuance of partnership units.

The presentation of MAA's shareholders' equity and the Operating Partnership's capital are the principal areas of difference between the consolidated financial statements of MAA and those of the Operating Partnership. MAA's shareholders' equity may include shares of preferred stock, shares of common stock, additional paid-in capital, cumulative earnings, cumulative distributions, noncontrolling interest, preferred units, treasury shares, accumulated other comprehensive income and redeemable common units. The Operating Partnership's capital may include

common capital and preferred capital of the general partner (MAA), limited partners' preferred capital, limited partners' noncontrolling interest, accumulated other comprehensive income and redeemable common units. Redeemable common units represent the number of outstanding OP Units as of the date of the applicable balance sheet, valued for conversion at the greater of the closing market price of MAA's common stock or the aggregate value of the individual partners' capital balances. Each redeemable OP Unit may be redeemed by the holder thereof for either cash equal to the fair market value of one share of common stock of MAA at the time of such redemption or, at the option of MAA, one share of common stock of MAA.

#### Organization and Formation of Mid-America Apartment Communities, Inc.

On October 1, 2013, MAA acquired Colonial Properties Trust, or Colonial, when Colonial was merged with and into MAA, with MAA being the surviving entity of the merger, pursuant to an agreement and plan of merger, which is referred to as the parent merger and Martha Merger Sub, LP, or OP Merger Sub, a wholly-owned indirect subsidiary of MAALP, merged with

and into Colonial Realty Limited Partnership, or Colonial LP, with Colonial LP being the surviving entity of the merger and becoming a wholly-owned indirect subsidiary of MAALP, which is referred to as the partnership merger. Under the terms of the merger agreement, each Colonial common share was converted into the right to receive 0.36 of a newly issued share of MAA common stock. In addition, each limited partner interest in Colonial LP designated as a “Class A Unit” and a “Partnership Unit” under the limited partnership agreement of Colonial LP, which we refer to in this filing as Colonial LP units, issued and outstanding immediately prior to the effectiveness of the partnership merger was converted into common units in MAALP at the 0.36 conversion rate. The net assets and results of operations of Colonial are included in our consolidated financial statements from the closing date, October 1, 2013 going forward.

As of March 31, 2014, we owned and operated 269 apartment communities comprising 82,730 apartments located in 14 states principally through the Operating Partnership and we also owned an interest in the following unconsolidated real estate joint ventures:

	Percent Owned	Number of Units/Square Feet	
<b>Multifamily:</b>			
Mid-America Multifamily Fund II, LLC (Fund II)	33.33%	594	(1)
Belterra	10.00%	288	(2)
McKinney	25.00%	—	(3)
<b>Commercial:</b>			
Land Title Building	33.30%	29,971	

(1) This joint venture is comprised of two apartment communities.

(2) This joint venture is not managed by MAA and is not included in our property totals.

(3) This joint venture consists of undeveloped land.

As of March 31, 2014, we had four development communities under construction totaling 999 units, with 305 units completed. Total expected costs for the development projects are \$146.0 million, of which \$98.7 million has been incurred to date. We expect to complete construction on all four projects by the first quarter of 2015. Four of our multifamily properties include retail components with approximately 100,000 square feet of gross leasable area. We also have three wholly owned commercial properties, which we acquired through our merger with Colonial with approximately 287,000 square feet of gross leasable area, excluding tenant owned anchor stores, and one partially owned commercial property with approximately 30,000 square feet of gross leasable area.

#### Basis of Presentation and Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared by our management in accordance with United States generally accepted accounting principles, or GAAP, and applicable rules and regulations of the Securities and Exchange Commission, or the SEC. The consolidated financial statements of MAA presented herein include the accounts of MAA, the Operating Partnership, and all other subsidiaries in which MAA has a controlling financial interest. MAA owns approximately 95% to 100% of all consolidated subsidiaries. The consolidated financial statements of MAALP presented herein include the accounts of MAALP and all other subsidiaries in which MAALP has a controlling financial interest. MAALP owns, directly or indirectly, 100% of all consolidated subsidiaries. In our opinion, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included, and all such adjustments were of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation.

We invest in entities which may qualify as variable interest entities, or VIE. A VIE is a legal entity in which the equity investors lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial

support or, as a group, the holders of the equity investment at risk lack the power to direct the activities of a legal entity as well as the obligation to absorb its expected losses or the right to receive its expected residual returns. We consolidate all VIEs for which we are the primary beneficiary and use the equity method to account for investments that qualify as VIEs but for which we are not the primary beneficiary. In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including but not limited to, those activities that most significantly impact the VIE's economic performance and which party controls such activities.



We use the equity method of accounting for our investments in entities for which we exercise significant influence, but do not have the ability to exercise control. These entities are not variable interest entities. The factors considered in determining that we do not have the ability to exercise control include ownership of voting interests and participatory rights of investors.

## 2. Business Combinations

### Merger of MAA and Colonial

On October 1, 2013, we completed our merger with Colonial. Pursuant to the merger agreement, Martha Merger Sub, LP, or OP Merger Sub, a wholly-owned indirect subsidiary of our Operating Partnership, merged with and into Colonial LP, with Colonial LP being the surviving entity of the merger and becoming a wholly-owned indirect subsidiary of our Operating Partnership, which is referred to as the partnership merger. The partnership merger was part of the transactions contemplated by the agreement and plan of merger entered into on June 3, 2013 among MAA, our Operating Partnership, OP Merger Sub, Colonial, and Colonial LP pursuant to which MAA and Colonial combined through a merger of Colonial with and into MAA, with MAA surviving the merger, which is referred to as the parent merger. Under the terms of the merger agreement, each Colonial common share was converted into the right to receive 0.36 of a newly issued share of MAA common stock. In addition, each limited partner interest in Colonial LP designated as a "Class A Unit" and a "Partnership Unit" under the limited partnership agreement of Colonial LP, which we refer to in this filing as Colonial LP units, issued and outstanding immediately prior to the effectiveness of the partnership merger was converted into common units in our Operating Partnership at the 0.36 conversion rate.

As part of the merger, we acquired 115 wholly owned apartment communities encompassing 34,370 units principally located in the Southeast and Southwest regions of the United States. In addition to the apartment communities, we also acquired four commercial properties totaling approximately 806,000 square feet. The additions have caused us to nearly double in size as a result of the merger. The net assets and results of operations of Colonial are included in our consolidated financial statements from the closing date, October 1, 2013, going forward.

The total purchase price of approximately \$2.2 billion was determined based on the number of Colonial shares of common stock and Colonial OP Units outstanding, as of October 1, 2013. In all cases in which MAA's stock price was a determining factor in arriving at final consideration for the merger, the stock price used to determine the purchase price was the opening price of MAA's common stock on October 1, 2013 (\$62.56 per share). The total purchase price includes \$7.3 million of other consideration, a majority of which relates to assumed stock compensation plans. As a result of the Merger, we issued approximately 31.9 million shares of MAA common stock and approximately 2.6 million OP units.

The acquisition has been accounted for using the acquisition method of accounting in accordance with Accounting Standards Codification, or ASC, 805, Business Combinations, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their acquisition date fair values.

For larger, portfolio style acquisitions, like the Merger, management engages a third party valuation specialist to assist with the fair value assessment, which includes an allocation of the purchase price. Similar to management's methods, the third party uses cash flow analysis as well as an income approach and a market approach to determine the fair value of assets acquired. The third party uses stabilized NOI and a market specific capitalization and discount rates. Management reviews the inputs used by the third party specialist as well as the allocation of the purchase price provided by the third party to ensure reasonableness and that the procedures are performed in accordance with management's policy. The allocation of the purchase price is based on management's assessment, which may differ as more information becomes available. Subsequent adjustments made to the purchase price allocation, if any, are made within the allocation period, which typically does not exceed one year.

The allocation of the purchase price described above requires a significant amount of judgment. The following purchase price allocation was based on our valuation, estimates and assumptions of the acquisition date fair value of the tangible and intangible assets acquired and liabilities assumed. While the current allocation of the purchase price is substantially complete, the valuation of the real estate properties and certain other assets and liabilities is in the process of being finalized. We do not expect future revisions, if any, to have a significant impact on our financial position or results of operations.

The purchase price was allocated as follows (in thousands):

Land	\$469,396	
Buildings and improvements	3,075,642	
Furniture, fixtures and equipment	96,377	
Development and capital improvements in progress	113,368	
Undeveloped land	58,400	
Properties held for sale	33,300	
Lease intangible assets	57,946	
Cash and cash equivalents	63,454	
Restricted cash	6,825	
Deferred costs and other assets, excluding lease intangible assets	87,713	
Total assets acquired	4,062,421	
Notes payable	(1,759,550)	
Fair market value of interest rate swaps	(14,961)	
Accounts payable, accrued expenses, and other liabilities	(125,034)	
Total liabilities assumed, including debt	(1,899,545)	)
Total purchase price	\$2,162,876	

We incurred merger and integration related expenses of \$5.9 million for the three months ended March 31, 2014. These amounts were expensed as incurred and are included in the Consolidated Statement of Operations in the items titled Merger related expenses and Integration related expenses.

The allocation of fair values of the assets acquired and liabilities assumed has changed from the allocation reported in Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements, Note 2 of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 21, 2014. The changes were based on information concerning the subject assets and liabilities that was not yet available at the time of the 10-K filing. These adjustments had no material impact on the results of operations.

### 3. Earnings per Common Share of MAA

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per share. Both the unvested restricted shares and other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis with our diluted earnings per share being the more dilutive of the treasury stock or two-class methods. Operating partnership units are included in dilutive earnings per share calculations when they are dilutive to earnings per share. For the three months ended March 31, 2014 and 2013, MAA's basic earnings per share is computed using the two-class method, and our diluted earnings per share is computed using the more dilutive of the treasury stock method or two-class method:

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(dollars and shares in thousands, except per share amounts)	Three months ended March 31,	
	2014	2013
Shares Outstanding		
Weighted average common shares - basic	74,803	42,354
Weighted average partnership units outstanding	—	(1) 1,715
Effect of dilutive securities	—	(1) 80
Weighted average common shares - diluted	74,803	44,149
Calculation of Earnings per Share - basic		
Income from continuing operations	\$6,698	\$20,223
Gain on sale of depreciable assets excluded from discontinued operations	2,564	—
Gain on sale of non-depreciable assets	557	—
Income from continuing operations attributable to noncontrolling interests	(534 )	(760 )
Income from continuing operations allocated to unvested restricted shares	(17 )	(18 )
Income from continuing operations available for common shareholders, adjusted	\$9,268	\$19,445
Income from discontinued operations	\$5,895	\$1,782
Income from discontinued operations attributable to noncontrolling interest	(314 )	(65 )
Income from discontinued operations allocated to unvested restricted shares	(10 )	(2 )
Income from discontinued operations available for common shareholders, adjusted	\$5,571	\$1,715
Weighted average common shares - basic	74,803	42,354
Earnings per share - basic	\$0.20	\$0.50
Calculation of Earnings per Share - diluted		
Income from continuing operations	\$6,698	\$20,223
Gain on sale of depreciable assets	2,564	—
Gain on sale of non-depreciable assets	557	—
Income from continuing operations attributable to noncontrolling interests	(534 ) <sup>(1)</sup>	—
Income from continuing operations allocated to unvested restricted shares	(17 ) <sup>(1)</sup>	—
Income from continuing operations available for common shareholders, adjusted	\$9,268	\$20,223
Income from discontinued operations	\$5,895	\$1,782
Income from discontinued operations attributable to noncontrolling interest	(314 ) <sup>(1)</sup>	—
Income from discontinued operations allocated to unvested restricted shares	(10 ) <sup>(1)</sup>	—
Income from discontinued operations available for common shareholders, adjusted	\$5,571	\$1,782
Weighted average common shares - diluted	74,803	44,149
Earnings per share - diluted	\$0.20	\$0.50

<sup>(1)</sup> Operating partnership units, other dilutive securities, and the related income with each are not included in the diluted earnings per share calculations as they were not dilutive.

#### 4. Earnings per OP Unit of MAALP

Basic earnings per OP Unit is computed by dividing net income available for common unitholders by the weighted average number of units outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common unitholders and, accordingly, are

considered participating securities that are included in the two-class method of computing basic earnings per OP unit. Diluted earnings per OP Unit reflects the potential dilution that could occur if securities or other contracts to issue OP Units were exercised or converted into OP Units.

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A reconciliation of the numerators and denominators of the basic and diluted earnings per unit computations for the three months ended March 31, 2014 and 2013 is presented below:

(dollars and units in thousands, except per unit amounts)	Three months ended	
	March 31, 2014	2013
Units Outstanding		
Weighted average common units - basic	79,023	44,109
Effect of dilutive securities	—	(1) 80
Weighted average common units - diluted	79,023	44,189
Calculation of Earnings per Unit - basic		
Income from continuing operations	\$6,698	\$20,223
Gain on sale of depreciable assets excluded from discontinued operations	2,564	—
Gain on sale of non-depreciable assets	557	—
Income from continuing operations allocated to unvested restricted shares	(17 )	(18 )
Income from continuing operations available for common unitholders, adjusted	\$9,802	\$20,205
Income from discontinued operations	\$5,895	\$1,570
Income from discontinued operations allocated to unvested restricted shares	(10 )	(1 )
Income from discontinued operations available for common unitholders, adjusted	\$5,885	\$1,569
Weighted average common units - basic	79,023	44,109
Earnings per unit - basic:	\$0.20	\$0.49
Calculation of Earnings per Unit - diluted		
Income from continuing operations	\$6,698	\$20,223
Gain on sale of depreciable assets	2,564	—
Gain on sale of non-depreciable assets	557	—
Income from continuing operations allocated to unvested restricted shares	(17 )	(1) —
Income from continuing operations available for common unitholders, adjusted	\$9,802	\$20,223
Income from discontinued operations	\$5,895	\$1,570
Income from discontinued operations allocated to unvested restricted shares	(10 )	(1) —
Income from discontinued operations available for common unitholders, adjusted	\$5,885	\$1,570
Weighted average common units - diluted	79,023	44,189
Earnings per unit - diluted:	\$0.20	\$0.49

(1) Dilutive securities and the related income are not included in the diluted earnings per unit calculations as they were not dilutive.



## 5. MAA Equity

Total equity and its components for the three-month periods ended March 31, 2014 and 2013 were as follows (dollars in thousands, except per share and per unit data):

	Mid-America Apartment Communities, Inc. Shareholders					
	Common Stock Amount	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
EQUITY BALANCE DECEMBER 31, 2013	\$ 747	\$ 3,599,549	\$ (653,593 )	\$ 108	\$ 166,726	\$3,113,537
Net income			14,866		848	15,714
Other comprehensive income - derivative instruments (cash flow hedges)				2,583	144	2,727
Issuance and registration of common shares	1	226				227
Shares repurchased and retired	—	(285 )				(285 )
Exercise of stock options	1	1,774				1,775
Shares issued in exchange for units	—	744			(744 )	—
Shares issued in exchange from redeemable stock		998				998
Redeemable stock fair market value			(631 )			(631 )
Adjustment for noncontrolling interest ownership in operating partnership		163			(163 )	—
Amortization of unearned compensation		948				948
Dividends on common stock (\$0.7300 per share)			(54,792 )		—	(54,792 )
Dividends on noncontrolling interest units (\$0.7300 per unit)					(3,072 )	(3,072 )
EQUITY BALANCE MARCH 31, 2014	\$ 749	\$ 3,604,117	\$ (694,150 )	\$ 2,691	\$ 163,739	\$3,077,146

	Mid-America Apartment Communities, Inc. Shareholders					
	Common Stock Amount	Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
EQUITY BALANCE DECEMBER 31, 2012	\$ 422	\$ 1,542,999	\$ (603,315 )	\$ (26,054 )	\$ 31,058	\$945,110
Net income			21,180		825	22,005
Other comprehensive income - derivative instruments (cash flow hedges)				4,185	178	4,363



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Issuance and registration of common shares	3	22,055			22,058
Shares repurchased and retired	—	(673 )			(673 )
Shares issued in exchange for units	1	442		(443 )	—
Redeemable stock fair market value			(319 )		(319 )
Adjustment for noncontrolling interest ownership in operating partnership		302		(302 )	—
Amortization of unearned compensation		630			630
Dividends on common stock (\$0.6950 per share)			(29,674 )	—	(29,674 )
Dividends on noncontrolling interest units (\$0.6950 per unit)				(1,187 )	(1,187 )
EQUITY BALANCE MARCH 31, 2013	\$ 426	\$ 1,565,755	\$ (612,128 )	\$ (21,869 )	\$ 30,129
					\$962,313

## 6. MAALP Capital

Total capital and its components for the three-month periods ended March 31, 2014 and 2013 were as follows (dollars in thousands, except per unit data):

	Mid-America Apartments, L.P. Unitholders			
	Limited Partner	General Partner	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
CAPITAL BALANCE DECEMBER 31, 2013	\$ 166,746	\$ 2,946,598	\$ 174	\$ 3,113,518
Net income	848	14,866		15,714
Other comprehensive income - derivative instruments (cash flow hedges)			2,727	2,727
Issuance of units	—	227		227
Units repurchased and retired		(285 )		(285 )
Exercise of unit options		1,775		1,775
General partner units issued in exchange for limited partner units	(744 )	744		—
Units issued in exchange from redeemable units		998		998
Redeemable units fair market value adjustment		(631 )		(631 )
Adjustment for limited partners' capital at redemption value	(201 )	201		—
Amortization of unearned compensation		948		948
Distributions (\$0.7300 per unit)	(3,072 )	(54,792 )		(57,864 )
CAPITAL BALANCE MARCH 31, 2014	\$ 163,577	\$ 2,910,649	\$ 2,901	\$ 3,077,127

	Mid-America Apartments, L.P. Unitholders			
	Limited Partner	General Partner	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
CAPITAL BALANCE DECEMBER 31, 2012	\$ 38,154	\$ 927,734	\$ (26,881 )	\$ 939,007
Net income	855	20,938		21,793
Other comprehensive income - derivative instruments (cash flow hedges)			4,357	4,357
Issuance of units		22,057		22,057
Units repurchased and retired		(673 )		(673 )
General partner units issued in exchange for limited partner units	(443 )	443		—
Redeemable units fair market value adjustment		(319 )		(319 )
Adjustment for limited partners capital at redemption value	2,812	(1,450 )		1,362
Amortization of unearned compensation		630		630
Distributions (\$0.6950 per unit)	(1,187 )	(29,674 )		(30,861 )
CAPITAL BALANCE MARCH 31, 2013	\$ 40,191	\$ 939,686	\$ (22,524 )	\$ 957,353

## 7. Borrowings

On March 31, 2014 and December 31, 2013, we had total indebtedness of approximately \$3.46 billion and \$3.47 billion, respectively. Our indebtedness as of March 31, 2014 consisted of both conventional and tax exempt debt. Borrowings were made through individual property mortgages as well as company-wide credit facilities. We utilize both secured and unsecured debt.

On August 7, 2013, our Operating Partnership entered into a \$500 million unsecured revolving credit facility agreement with KeyBank National Association and thirteen other banks. This agreement amends our Operating Partnership's previous unsecured credit facility with KeyBank. Interest is paid using an investment grade pricing grid using LIBOR plus a spread of 0.90% to 1.70%. As of March 31, 2014, we had no borrowings under this facility.

On October 16, 2013, MAALP issued \$350 million in aggregate principal amount of notes, maturing on October 15, 2023 with an interest rate of 4.3% per annum (the "2023 Notes"). The purchase price paid by the initial purchasers was 99.047% of the

principal amount. The 2023 Notes are general unsecured senior obligations of MAALP and rank equally in right of payment with all other senior unsecured indebtedness of MAALP. Interest on the 2023 Notes is payable on April 15 and October 15 of each year, beginning on April 15, 2014. The net proceeds from the offering after deducting the original issue discount of approximately \$3.3 million and underwriting commissions and expenses of approximately \$2.3 million was approximately \$344.4 million. The 2023 Notes have been reflected net of discount in the consolidated balance sheet. The Company entered into three forward swaps totaling \$150 million, which resulted in a total effective interest rate of 4.15%.

On December 13, 2013, MAALP completed a series of exchange offers (the "Exchange Offers") pursuant to which it exchanged \$154,235,000 aggregate principal amount of 6.25% Senior Notes due 2014, \$169,161,000 aggregate principal amount of 5.50% Senior Notes due 2015 and \$68,130,000 aggregate principal amount of 6.05% Senior Notes due 2016 (collectively, the "Existing Notes") issued by Colonial Realty Limited Partnership, a Delaware limited partnership and wholly owned subsidiary of MAALP, for \$154,235,000 aggregate principal amount of MAALP's new 6.25% Senior Notes due 2014 (the "2014 Notes"), \$169,112,000 aggregate principal amount of MAALP's new 5.50% Senior Notes due 2015 (the "2015 Notes") and \$68,130,000 aggregate principal amount of MAALP's new 6.05% Senior Notes due 2016 (the "2016 Notes" and together with the 2014 Notes and the 2015 Notes, the "Exchange Notes"), plus approximately \$975,000 in cash.

The Exchange Notes are senior unsecured obligations of MAALP and will rank equally in right of payment with all of MAALP's other existing and future senior unsecured indebtedness. Interest on the 2014 Notes will accrue from, and including, December 15, 2013 and will be payable on June 15, 2014, which will also be the maturity date for the 2014 Notes. Interest on the 2015 Notes will accrue from, and including, October 1, 2013 and will be payable semiannually on April 1 and October 1 of each year, beginning on April 1, 2014. Interest on the 2016 Notes accrued from, and including, September 1, 2013 and was paid on March 1, 2014. Interest payments will be payable semiannually on March 1 and September 1 of each year, beginning on March 1, 2014. In certain circumstances described below MAALP may be required to pay additional interest on the Exchange Notes.

The Indenture under which the 2023 notes were issued and the Indentures contain certain covenants that, among other things, limit the ability of MAALP and its subsidiaries to incur secured and unsecured indebtedness if not in pro forma compliance with the following negative covenants: (1) total leverage not to exceed 60% of adjusted total assets, (2) secured leverage not to exceed 40% of adjusted total assets and (3) a fixed charge coverage ratio of at least 1.50 to 1. In addition, MAALP is required to maintain at all times unencumbered consolidated total assets of not less than 150% of the aggregate principal amount of its outstanding unsecured debt. At March 31, 2014, MAALP was in compliance with each of these financial covenants.

All of the Existing Notes tendered into the Exchange Offers were cancelled in connection with the settlement of the Exchange Offers. In connection with the issuance and sale of the Exchange Notes, MAALP also entered into three separate registration rights agreements, each dated as of December 13, 2013, and each with J.P. Morgan Securities LLC, the dealer manager in the Exchange Offers (the "Registration Rights Agreements"). Under the Registration Rights Agreements, MAALP agreed to use commercially reasonable efforts to complete exchange offers registered under the Securities Act pursuant to which MAALP will offer to issue new exchange notes containing terms substantially similar in all material respects to the Exchange Notes (except that the exchange notes will not contain terms with respect to transfer restrictions or any increase in annual interest rate) in exchange for the Exchange Notes. MAALP also agreed, if it determines that a registered exchange offer is not available or specified other circumstances occur, to use commercially reasonable efforts to file and have become effective a shelf registration statement relating to resales of the Exchange Notes. MAALP will be obligated to pay additional interest of up to 0.50% per annum on the Exchange Notes if it does not complete the exchange offers within 270 days after the issue date of the Exchange Notes and in other specified circumstances.

As of March 31, 2014, approximately 18% of our outstanding debt was borrowed through secured credit facility relationships with Prudential Mortgage Capital, which are credit enhanced by the Federal National Mortgage Association, or FNMA, and Financial Federal, which are credit enhanced by Federal Home Loan Mortgage Corporation, or Freddie Mac.

We utilize interest rate swaps and interest rate caps to help manage our current and future interest rate risk and entered into 14 interest rate swaps and 7 interest rate caps as of March 31, 2014, representing notional amounts totaling \$717.0 million and \$180.0 million, respectively. We also held 15 non-designated interest rate caps with notional amounts totaling \$134.3 million as of March 31, 2014.

The following table summarizes our outstanding debt structure as of March 31, 2014 (dollars in thousands):

	Borrowed Balance	Effective Rate	Contract Maturity
Fixed Rate Secured Debt			
Individual property mortgages	\$1,124,500	4.0	% 4/11/2019
FNMA conventional credit facilities	50,000	4.7	% 3/31/2017
Credit facility balances with:			
LIBOR-based interest rate swaps	167,000	5.2	% 10/27/2014
Total fixed rate secured debt	\$1,341,500	4.2	% 8/24/2018
Variable Rate Secured Debt <sup>(1)</sup>			
FNMA conventional credit facilities	\$171,785	0.7	% 1/31/2017
FNMA tax-free credit facilities	88,370	0.9	% 7/23/2031
Freddie Mac credit facilities	156,247	0.7	% 7/1/2014
Freddie Mac mortgage	27,259	3.3	% 10/31/2015
Total variable rate secured debt	\$443,661	0.9	% 12/24/2018
Total Secured Debt	\$1,785,161	3.4	% 9/23/2018
Unsecured Debt			
Term loan fixed with swaps	550,000	3.1	% 11/10/2017
Fixed rate senior bonds	1,127,898	5.0	% 9/23/2019
Total Unsecured Debt	\$1,677,898	4.3	% 2/11/2019
Total Outstanding Debt	\$3,463,059	3.8	% 6/24/2018

<sup>(1)</sup> Includes capped balances.

## 8. Derivatives and Hedging Activities

### Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future contractual and forecasted cash amounts, principally related to our borrowings, the value of which are determined by changing interest rates, related cash flows and other factors.

### Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we use interest rate swaps and interest rate caps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2014 and 2013, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt and forecasted issuances of fixed-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2014 and 2013, we recorded ineffectiveness of \$4,000 (increase to interest expense) and \$4,000 (decrease to

interest expense), respectively, mainly attributable to a mismatch in the underlying indices of the derivatives and the hedged interest payments made on our variable-rate debt.

Amounts reported in accumulated other comprehensive income related to derivatives designated as qualifying cash flow hedges will be reclassified to interest expense as interest payments are made on our variable-rate or fixed-rate debt. During the next 12 months, we estimate that an additional \$9.7 million will be reclassified to earnings as an increase to interest expense, which primarily represents the difference between our fixed interest rate swap payments and the projected variable interest rate swap payments.

As of March 31, 2014, we had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional
Interest Rate Caps	7	\$ 180,000,000
Interest Rate Swaps <sup>(1)</sup>	14	\$ 717,000,000

<sup>(1)</sup> Excludes four forward rate swaps totaling \$200 million where the debt has not yet been issued. These swaps are not included in our debt discussion in MD&A or Item 1. Financial Statements – Notes to Consolidated Financial Statements, Note 7.

#### Non-Designated Hedges

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in a loss of \$69,000 for the three months ended March 31, 2014 and a loss of \$13,000 for the three months ended March 31, 2013.

As of March 31, 2014, we had the following outstanding interest rate derivatives that were not designated as hedges:

Interest Rate Derivative	Number of Instruments	Notional
Interest rate caps	15	\$ 134,326,000





## Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of our derivative financial instruments as well as their classification on the Consolidated Balance Sheet as of March 31, 2014 and December 31, 2013, respectively.

Fair Values of Derivative Instruments on the Consolidated Balance Sheet as of March 31, 2014 and December 31, 2013 (dollars in thousands)

	Asset Derivatives		Liability Derivatives			
		March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value	Fair Value	Balance Sheet Location Fair market value of interest rate swaps	Fair Value	Fair Value
Interest rate contracts	Other assets	\$441	\$396		\$17,937	\$20,015
Total derivatives designated as hedging instruments		\$441	\$396		\$17,937	\$20,015
Derivatives not designated as hedging instruments						
Interest rate contracts	Other assets	\$83	\$49		\$—	\$—
Total derivatives not designated as hedging instruments		\$83	\$49		\$—	\$—



Tabular Disclosure of the Effect of Derivative Instruments on the Statements of Operations

The table below presents the effect of our derivative financial instruments on the Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013, respectively.

Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three months ended March 31, 2014 and 2013 (dollars in thousands)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2014	2013		2014	2013		2014	2013
Three months ended March 31,								
Interest rate contracts	\$(997)	\$(179)	Interest expense	\$(3,725)	\$(4,545)	Interest expense	\$(4)	\$4
Total derivatives in cash flow hedging relationships	\$(997)	\$(179)		\$(3,725)	\$(4,545)		\$(4)	\$4

Derivatives Not Designated as Hedging Instruments

Three months ended March 31,	Location of Gain or (Loss) Recognized in Income	2014	2013
Interest rate contracts	Interest expense	\$(69)	\$(13)
Total		\$(69)	\$(13)

Credit-Risk-Related Contingent Features

As of March 31, 2014, derivatives that were in a net liability position and subject to credit-risk-related contingent features had a termination value of \$19.6 million, which includes accrued interest but excludes any adjustment for nonperformance risk. These derivatives had a fair value, gross of asset positions, of \$17.9 million at March 31, 2014.

Certain of our derivative contracts contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. As of March 31, 2014, we had not breached the provisions of these agreements. If we had breached these provisions, we could have been required to settle our obligations under the agreements at their termination value of \$3.4 million.

Certain of our derivative contracts contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of March 31, 2014, we had not breached the provisions of these agreements. If we had breached these provisions, we could have been required to settle our obligations under the agreements at the termination value of \$14.9 million.

Certain of our derivative contracts are credit enhanced by either FNMA or Freddie Mac. These derivative contracts require that our credit enhancing party maintain credit ratings above a certain level. If our credit support providers were downgraded below Baa1 by Moody's or BBB+ by Standard & Poor's, or S&P, we may be required to either post 100 percent collateral or settle the obligations at their termination value of \$4.7 million as of March 31, 2014. Both FNMA and Freddie Mac are currently rated Aaa by Moody's and AA+ by S&P, and therefore, the provisions of this agreement have not been breached, and no collateral has been posted related to these agreements as of March 31, 2014.

Although our derivative contracts are subject to master netting arrangements, which serve as credit mitigants to both us and our counterparties under certain situations, we do not net our derivative fair values or any existing rights or obligations to cash collateral on the Consolidated Balance Sheet.



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The table below presents a gross presentation, the effects of offsetting, and a net presentation of our derivatives as of March 31, 2014 and December 31, 2013. The net amounts of derivative assets or liabilities can be reconciled to the Tabular Disclosure of Fair Values of Derivative Instruments above, which also provides the location that derivative assets and liabilities are presented on the Consolidated Balance Sheet (dollars in thousands):

Offsetting of Derivative Assets

As of March 31, 2014

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$524	\$—	\$524	\$(97 )	\$—	\$427

Offsetting of Derivative Liabilities

As of March 31, 2014

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	\$17,937	\$—	\$17,937	\$(97 )	\$—	\$17,840

Offsetting of Derivative Assets

As of December 31, 2013

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$444	\$—	\$444	\$—	\$—	\$444

Offsetting of Derivative Liabilities

As of December 31, 2013

Gross Amounts Not Offset  
in the Statement of



Financial Position

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives	\$20,015	\$—	\$20,015	\$—	\$—	\$20,015

## Other Comprehensive Income

Our other comprehensive income consists entirely of gains and losses attributable to the effective portion of our cash flow hedges. The chart below shows the change in the balance for the three months ended March 31, 2014 and 2013:

## Changes in Accumulated Other Comprehensive Income by Component

	Affected Line Item in the Consolidated Statements Of Operations	Gains and Losses on Cash Flow Hedges For the three months ended March 31,	
		2014	2013
Beginning balance		\$108	\$(26,054 )
Other comprehensive income before reclassifications		(997 )	(179 )
Amounts reclassified from accumulated other comprehensive income (interest rate contracts)	Interest (income)/expense	3,725	4,545
Net current-period other comprehensive income attributable to noncontrolling interest		(145 )	(181 )
Net current-period other comprehensive income attributable to MAA		2,583	4,185
Ending balance		\$2,691	\$(21,869 )

See also discussions in Item 1. Financial Statements – Notes to Consolidated Financial Statements, Note 9.

## 9. Fair Value Disclosure of Financial Instruments

Cash and cash equivalents, restricted cash, accounts payable, accrued expenses and other liabilities and security deposits are carried at amounts that reasonably approximate their fair value due to their short term nature.

On January 1, 2008, we adopted Financial Accounting Standards Board, or FASB, ASC 820 Fair Value Measurements and Disclosures, or ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is

based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Fixed rate notes payable at March 31, 2014 and December 31, 2013, totaled \$2.30 billion and \$2.29 billion, respectively, and had estimated fair values of \$2.33 billion and \$2.30 billion (excluding prepayment penalties), respectively, as of March 31, 2014 and December 31, 2013. The carrying value of variable rate notes payable (excluding the effect of interest rate swap and

cap agreements) at March 31, 2014 and December 31, 2013, totaled \$1.16 billion and \$1.18 billion, respectively, and had estimated fair values of \$1.07 billion and \$1.12 billion (excluding prepayment penalties), respectively, as of March 31, 2014 and December 31, 2013. The valuation of our debt is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each debt instrument. This analysis reflects the contractual terms of the debt, and uses observable market-based inputs, including interest rate curves and credit spreads. The fair values of fixed debt are determined by using the present value of future cash outflows discounted with the applicable current market rate plus a credit spread. The fair values of variable debt are determined using the stated variable rate plus the current market credit spread. Our variable rates reset every 30 to 90 days and we conclude that these rates reasonably estimate current market rates. We have determined that inputs used to value our debt fall within Level 2 of the fair value hierarchy and therefore our fair market valuation of debt is considered Level 2 in the fair value hierarchy.

Currently, we use interest rate swaps and interest rate caps (options) to manage our interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities.

To comply with the provisions of ASC 820, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. In conjunction with the FASB's fair value measurement guidance, we made an accounting policy election to measure the credit risk of our derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

We have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, and as a result, all of our derivatives held as of March 31, 2014 and December 31, 2013 were classified as Level 2 of the fair value hierarchy.

The table below presents our assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at March 31, 2014  
(dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2014
Assets				

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Derivative financial instruments	\$—	\$524	\$—	\$524
Liabilities				
Derivative financial instruments	\$—	\$17,937	\$—	\$17,937

## Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2013

(dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at  December 31, 2013
Assets				
Derivative financial instruments	\$—	\$444	\$—	\$444
Liabilities				
Derivative financial instruments	\$—	\$20,015	\$—	\$20,015

The fair value estimates presented herein are based on information available to management as of March 31, 2014 and December 31, 2013. These estimates are not necessarily indicative of the amounts we could ultimately realize. See also discussions in Item 1. Financial Statements – Notes to Consolidated Financial Statements, Note 8.

## 10. Shareholders' Equity of MAA

On March 31, 2014, 75,009,303 shares of common stock of MAA and 4,208,526 partnership units in the Operating Partnership were issued and outstanding, representing a total of 79,217,829 shares and units. At March 31, 2013, 42,683,322 shares of common stock of MAA and 1,707,660 partnership units in the Operating Partnership were outstanding, representing a total of 44,390,982 shares and units. There were 296,583 outstanding options as of March 31, 2014 compared to zero outstanding options as of March 31, 2013. The primary reason for the increase in shares and units is due to the merger with Colonial. In connection with the merger, on October 1, 2013, we issued 31,916,765 shares and 2,574,631 partnership units.

On August 26, 2010, we and our Operating Partnership entered into sales agreements with Cantor Fitzgerald & Co., Raymond James & Associates, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated to sell up to a combined total of 6,000,000 shares of our common stock, from time to time in at-the-market offerings or negotiated transactions through a controlled equity offering program, or ATM. We terminated this ATM program, and on February 25, 2013, we and our Operating Partnership entered into sales agreements with J.P. Morgan Securities LLC, BMO Capital Markets Corp., KeyBanc Capital Markets Inc. and UBS Securities LLC to sell up to 4,500,000 shares of our common stock with materially the same terms as our previous sales agreements.

During the three-month period ended March 31, 2014, we issued no shares through our ATM programs. During the three-month period ended March 31, 2013, we issued 325,166 shares through our ATM programs for net proceeds of \$22.0 million. The gross proceeds for these issuances were \$22.3 million. We have 4,134,989 shares remaining under our ATM program as of March 31, 2014.

During the three-month period ended March 31, 2014, we issued 340 shares of common stock through the optional cash purchase feature of our Dividend and Distribution Reinvestment and Share Purchase Program, or DRSP. The issuances resulted in gross proceeds of approximately \$23,000. During the three-month period ended March 31, 2013, we issued 141 shares of common stock through the optional cash purchase feature of our DRSP resulting in gross proceeds of approximately \$10,000.

During the three months ended March 31, 2014, 6,554 shares of our common stock were acquired from employees to satisfy minimum tax withholding obligations that arose upon vesting of restricted stock granted pursuant to approved plans. During the three months ended March 31, 2013, 4,582 shares were acquired for these purposes.

11. Partners' Capital of Mid-America Apartments, L.P.

Interests in MAALP are represented by OP Units. As of March 31, 2014, there were 79,217,829 OP Units outstanding, 75,009,303 or 94.7% of which were owned by MAA, MAALP's general partner. The remaining 4,208,526 OP Units were owned by non-affiliated limited partners ("Class A Limited Partners"). As of March 31, 2013, there were 44,390,982 OP Units outstanding, 42,683,322 or 96.2% of which were owned by MAA and 1,707,660 of which were owned by the Class A Limited Partners. The increase in OP Units was due primarily to the merger with Colonial Properties Trust. In order to complete the merger, on October 1, 2013, we issued 34,491,396 OP Units.

MAA, as the sole general partner of MAALP, has full, complete and exclusive discretion to manage and control the business of the Operating Partnership subject to the restrictions specifically contained within the Partnership Agreement. Unless otherwise stated in the Partnership Agreement of MAALP, this power includes, but is not limited to, acquiring, leasing, or disposing of any real property; constructing buildings and making other improvements to properties owned; borrowing money, modifying or extinguishing current borrowings, issuing evidence of indebtedness, and securing such indebtedness by mortgage, deed of trust, pledge or other lien on the Operating Partnership's assets; and distribution of Operating Partnership cash or other assets in accordance with the Partnership Agreement. MAA can generally, at its sole discretion, issue and redeem OP Units and determine the consideration to be received or the redemption price to be paid, as applicable. The general partner may delegate these and other powers granted if the general partner remains in supervision of the designee.

Under the Partnership Agreement, the Operating Partnership may issue Class A OP Units and Class B OP Units. Class A OP Units may only be held by limited partners who are not affiliated with MAA, in its capacity as general partner of the Operating Partnership, while Class B OP Units may only be held by MAA, in its capacity as general partner of the Operating Partnership, and as of March 31, 2014, a total of 4,208,526 Class A OP Units in the Operating Partnership were held by limited partners unaffiliated with MAA, while a total of 75,009,303 Class B OP Units were held by MAA. In general, the limited partners do not have the power to participate in the management or control of the Operating Partnership's business except in limited circumstances including changes in the general partner and protective rights if the general partner acts outside of the provisions provided in the Partnership Agreement. The transferability of Class A OP Units is also limited by the Partnership Agreement.

Net income is allocated to the general partner and limited partners based on their respective ownership percentages of the Operating Partnership. Issuance or redemption of additional Class A OP Units or Class B OP Units changes the relative ownership percentage of the partners. The issuance of Class B OP Units generally occurs when MAA issues common stock and the proceeds from that issuance are contributed to the Operating Partnership in exchange for the issuance to MAA of a number of OP Units equal to the number of shares of common stock issued. Likewise, if MAA repurchases or redeems outstanding shares of common stock, the Operating Partnership generally redeems an equal number of Class B OP Units with similar terms held by MAA for a redemption price equal to the purchase price of those shares of common stock. At each reporting period, the allocation between general partner capital and limited partner capital is adjusted to account for the change in the respective percentage ownership of the underlying capital of the Operating Partnership. Holders of the Class A OP Units may require MAA to redeem their Class A OP Units, in which case MAA may, at its option, pay the redemption price either in cash (in an amount per Class A OP Unit equal, in general, to the average closing price of MAA's common stock on the New York Stock Exchange over a specified period prior to the redemption date) or by delivering one share of MAA common stock (subject to adjustment under specified circumstances) for each Class A OP Unit so redeemed.

At March 31, 2014, a total of 4,208,526 Class A OP Units were outstanding and redeemable for 4,208,526 shares of MAA common stock or approximately \$287,316,070, based on the closing price of MAA's common stock on March 31, 2014 of \$68.27 per share, at MAA's option. At March 31, 2013, a total of 1,707,660 Class A OP Units were outstanding and redeemable for 1,707,660 shares of MAA common stock or approximately \$117,931,000, based on the closing price of MAA's common stock on March 31, 2013 of \$69.06 per share, at MAA's option.

The Operating Partnership pays the same per unit distribution in respect to the OP Units as the per share dividend MAA pays in respect to its common and preferred stock.

## 12. Legal Proceedings



The Company (by virtue of its merger with Colonial) and Colonial LP along with multiple other parties, are named defendants in lawsuits arising out of alleged construction deficiencies with respect to condominium units at Regatta at James Island in Charleston, South Carolina. Regatta at James Island property was developed by certain of the Company's subsidiaries and constructed by Colonial Construction Services, LLC. The condominiums were constructed in 2006 and all 212 units were sold. The lawsuits, one filed on behalf of the condominium homeowners association and one filed by three of the unit owners (purportedly on behalf of all unit owners), were filed in South Carolina state court (Charleston County) in August 2012, against various parties involved in the development and construction of the Regatta at James Island property, including the contractors, subcontractors, architect, developer, and product manufacturers. The plaintiffs are seeking damages resulting primarily from alleged construction deficiencies, but the amount plaintiffs seek to recover has not been disclosed. The lawsuits are currently in discovery. The Company is continuing to investigate the matter and evaluate its options and intends to vigorously defend itself against these claims. No assurance can be given that the matter will be resolved favorably to the Company. The Company has included in its loss contingency an estimate of probable loss in connection with this matter, but currently cannot reasonably estimate any further possible loss, or any range of reasonably possible loss, in connection with this matter.

The Company (by virtue of its merger with Colonial) and Colonial LP along with multiple other parties, are named defendants in a lawsuit arising out of alleged construction deficiencies with respect to condominium units at Plantation Point in Bluffton, South Carolina. Plantation Point was previously owned and operated by Colonial LP as a multi-family rental project by the name of the Ashley Plantation apartments. Colonial LP sold the property in 2005 to a third party, which then converted the property to condominiums and sold all 414 units. The lawsuit, filed on behalf of the condominium homeowners association and a class of unit owners, was filed in South Carolina state court (Beaufort County) in September 2011, against various parties involved in the development, construction and conversion of the Plantation Point property, including the contractors, subcontractors, architect, developer, and product manufacturers. The plaintiffs are seeking \$24.7 million in damages resulting from, among other things, alleged construction deficiencies and misleading sales practices attributed to the third-party seller. The lawsuit is currently in discovery. The Company is continuing to investigate the matter and evaluate its options and intends to vigorously defend itself against these claims. No assurance can be given that the matter will be resolved favorably to the Company. The Company has included in its loss contingency an estimate of probable loss in connection with this matter, but currently cannot reasonably estimate any further possible loss, or any range of reasonably possible loss, in connection with this matter.

On June 19, 2013, a putative class action was filed in the Circuit Court for Jefferson County, Alabama captioned Williams v. Colonial Properties Trust, et al., No. 01-CV-2013-902416.00 (the "Williams Litigation"), seeking, among other things, to enjoin the previously announced combination of MAA and Colonial in accordance with the terms of the Agreement and Plan of Merger, dated June 3, 2013, by and among MAA, the Operating Partnership, Martha Merger Sub, LP, Colonial and Colonial LP. On March 6, 2014 the Court approved the final settlement of the Williams litigation and the Company made the Court-approved immaterial payment to the Plaintiff's attorneys.

In addition, the Company is subject to various other legal proceedings and claims that arise in the ordinary course of its business operations. Matters which arise out of allegations of bodily injury, property damage, and employment practices are generally covered by insurance. While the resolution of these other matters cannot be predicted with certainty, management currently believes the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or cash flows of the Company.

#### Loss Contingencies

The outcomes of the claims, disputes and legal proceedings described or referenced above are subject to significant uncertainty. The Company records an accrual for loss contingencies when a loss is probable and the amount of the loss can be reasonably estimated. The Company reviews these accruals quarterly and makes revisions based on changes in facts and circumstances. When a loss contingency is not both probable and reasonably estimable, the Company does not accrue the loss. However, if the loss (or an additional loss in excess of the accrual) is at least a reasonable possibility and material, then the Company discloses a reasonable estimate of the possible loss, or range of loss, if such reasonable estimate can be made. If the Company cannot make a reasonable estimate of the possible loss,