

MID AMERICA APARTMENT COMMUNITIES INC  
Form 10-K  
February 28, 2007

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

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**FORM 10-K**

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- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2006  
**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: 1-12762

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

**TENNESSEE** **62-1543819**  
*(State or other jurisdiction of Incorporation or Organization)* *(I.R.S. Employer Identification No.)*  
**6584 POPLAR AVENUE, SUITE 300**  
**MEMPHIS, TENNESSEE** **38138**  
*(Address of principal executive offices)* *(Zip Code)*  
**(901) 682-6600**  
*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, par value \$.01 per share	New York Stock Exchange
Series F Cumulative Redeemable Preferred Stock, Par value \$.01 per share	New York Stock Exchange
Series H Cumulative Redeemable Preferred Stock, Par value \$.01 per share	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: [None]**

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. xYes oNo

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 the filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1,302,258,285, based on the closing sale price as reported on the New York Stock Exchange.

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

Class	Outstanding at February 9, 2007
Common Stock, \$.01 par value per share	25,332,675 shares

## DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Certain portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 22, 2007 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.	Part III

## MID-AMERICA APARTMENT COMMUNITIES, INC.

### TABLE OF CONTENTS

Item		Page
	<b>PART I</b>	
1.	Business	3
1A.	Risk Factors	8
1B.	Unresolved Staff Comments	13
2.	Properties	13
3.	Legal Proceedings	19

4.	Submission of Matters to Vote of Security Holders	19
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## PART II

5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	20
6.	Selected Financial Data	22
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
7A.	Quantitative and Qualitative Disclosures About Market Risk	33
8.	Financial Statements and Supplementary Data	34
9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	34
9A.	Controls and Procedures	34
9B.	Other Information	35

## PART III

10.	Directors, Executive Officers and Corporate Governance	35
11.	Executive Compensation	35
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	35
13.	Certain Relationships and Related Transactions, and Director Independence	35
14.	Principal Accounting Fees and Services	35

## PART IV

15.	Exhibits, Financial Statement Schedules	36
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## PART I

### ITEM 1. BUSINESS

#### OVERVIEW OF MID-AMERICA

Founded in 1994, Mid-America Apartment Communities, Inc., or Mid-America, is a Memphis, Tennessee-based self-administered and self-managed umbrella partnership real estate investment trust, or REIT, that focuses on acquiring, owning and operating apartment communities. We, together with our subsidiaries, report as a single business segment. As of December 31, 2006, Mid-America owned 100% of 137 properties representing 39,771 apartment units. Mid-America has from time-to-time participated in various joint ventures. As of December 31, 2006, we participated in a joint venture with Crow Holdings named Mid-America CH/Realty II LP, which owned one property with 522 apartment units at December 31, 2006. Mid-America had a 33.33% ownership interest in the joint venture and was paid a management fee of 4% of revenues from the property owned by the joint venture as of and for the year ended December 31, 2006. In total, Mid-America owned or had an ownership interest in 138 properties with 40,293 apartment units at December 31, 2006. Subsequent to year end, the joint venture sold its sole property and Mid-America sold its ownership interest in the joint venture to Crow Holdings. Following these transactions in January 2007, Mid-America had no joint venture interests.

Mid-America's business is conducted principally through Mid-America Apartments, L.P., which we refer to as our operating partnership. Mid-America is the sole general partner of the operating partnership, holding 258,990 common units of partnership interest, or common units, comprising a 1% general partnership interest in the operating partnership as of December 31, 2006. Mid-America's wholly-owned qualified REIT subsidiary, MAC II of Delaware, Inc., a Delaware corporation, is a limited partner in the operating partnership and, as of December 31, 2006, held 23,028,923 common units, or 88.92% of all outstanding common units.

Mid-America operated apartment communities in 13 states in 2006, employing 1,164 full time and 105 part time employees at December 31, 2006.

## **OPERATING PHILOSOPHY**

Mid-America's primary objectives are to protect and grow existing property values, to maintain a stable and increasing cash flow that will fund its dividend through all parts of the real estate investment cycle, and to create new shareholder value by growing Mid-America in a disciplined manner. Mid-America focuses on growing shareholder value by effectively and efficiently operating its existing investments and, when accretive to shareholder value, through new investments.

### **Investment Focus**

Mid-America's primary investment focus is on apartment communities in the Sunbelt region of the United States. Between 1994 and 1997, Mid-America grew largely through the acquisition and redevelopment of existing communities. Between 1998 and 2002, its concentration was on development of new communities. Since 2003, we have focused on the acquisition of properties that we believe can be repositioned with appropriate use of capital and our operating management skills. We are currently focusing on increasing our investments in properties in larger and faster growing markets within our current geographic area, and intend to do this through acquiring apartment communities with the potential for above average growth. On a small scale, Mid-America is developing expansions at existing communities. We will continue our established process of selling mature assets, and will adapt our investment focus to opportunities and markets. In order to improve our return on investment, we have from time-to-time invested with joint venture partners and anticipate this will continue to be part of our strategy.

### **High Quality Assets**

Mid-America strives to maintain its assets in excellent condition, believing that continuous maintenance will lead to higher long-run returns on investment. Mid-America believes that being recognized by civic and industry trade organizations for the high quality of its properties, landscaping, and property management will lead to higher

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rents and profitability and evidences the high quality of its properties and operations. Mid-America periodically and selectively sells assets to ensure that its portfolio consists primarily of high quality, well-located properties within its market area.

### **Diversified Market Focus**

We believe the stability of our cash flow is enhanced and it will generate higher risk adjusted cash flow returns, with lower volatility, through our diversified strategy of investments over large, middle and small-tier markets throughout the Sunbelt region of the United States.

### **Intensive Property and Asset Management Focus**

Mid-America has traditionally emphasized property management, and in the past three years we have deepened our asset management functions to provide additional support in marketing, training, ancillary income and, most recently, revenue management. At December 31, 2006, Mid-America employed approximately 106 Certified Apartment Managers, a designation established by the National Apartment Association which provides training for on-site manager professionals. We have enhanced our focus on asset management over the last several years by increasing regional staffing in the areas of maintenance, capital improvement oversight, landscaping, marketing and pricing management.

### **Decentralized Operational Structure**

Mid-America operates in a decentralized manner. We believe that our decentralized operating structure capitalizes on specific market knowledge, provides greater personal accountability than a centralized structure and is beneficial in the acquisition and redevelopment processes. To support this decentralized operational structure, senior and executive management, along with various asset management functions, are proactively involved in supporting and reviewing property management through extensive reporting processes and frequent on-site visitations. In 2004, Mid-America completed the installation of the property and accounting modules of a new web-based property management system that increased the amount of information shared between senior and executive management and the properties on a real time basis, improving the support provided to on-site property operations. In 2005, we made significant improvements to our operating platform and we expect these enhancements will help capture more operating efficiencies, continue to support effective expense control and provide for various expanded revenue management practices. In 2006, we successfully completed an extensive test and evaluation of a new "yield management" pricing program that we plan to implement across the portfolio during 2007 which we expect will help our property managers to optimize rental revenues.

## **PROACTIVE BALANCE SHEET AND PORTFOLIO MANAGEMENT**

Mid-America focuses on improving the value of each share of Mid-America common stock. We routinely evaluate each asset and from time-to-time sell those that no longer fit our strategy. Mid-America makes new investments and issues new equity when management believes it can add to value per share. In the past, Mid-America has sold assets to fund share repurchases when, in management's view, shareholder value would be enhanced.

## **STRATEGIES**

Mid-America seeks to increase operating cash flow and earnings per share to maximize shareholder value through a balanced strategy of internal and external growth.

### **Operating Growth Strategy**

Mid-America's goal is to maximize our return on investment in each apartment community by increasing rental rates and reducing operating expenses while maintaining high occupancy levels. The steps taken to meet these objectives include:

- providing real-time information through technology innovations; such as the implementation of Mid-America's new web-based property management system that shares information between properties and management;
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- implementing systems to enhance property managers' ability to optimize revenue by adjusting rents in response to local market conditions;
  - developing new ancillary income programs aimed at offering new services to residents, including telephone, cable, and internet access, on which Mid-America generates fee and commission income;
  - implementing programs to control expenses through investment in cost-saving initiatives, such as the installation of individual apartment unit water and utility meters in certain apartment communities;
  - analyzing individual asset productivity performances to identify best practices and improvement areas;
  - proactively maintaining the physical condition of each property;
  - improving the "curb appeal" of the apartment communities through extensive landscaping and exterior improvements and repositioning apartment communities from time-to-time to maintain market leadership positions;

- compensating employees through performance-based compensation and stock ownership programs;
- maintaining a hands-on management style and "flat" organizational structure that emphasizes senior management's continued close contact with the market and employees;
- selling or exchanging underperforming assets;
- repurchasing or issuing shares of common or preferred stock when cost of capital and asset values permit;
- aggressively managing lease expirations to align with peak leasing traffic patterns and to maximize productivity of property staffing; and
- allocating additional capital, including capital for selective interior improvements, where the investment will generate the highest returns for Mid-America.

### Joint Venture Strategy

One of Mid-America's strategies is to co-invest with private capital partners in joint venture opportunities from time-to-time to the extent we believe that a joint venture will enable us to obtain a higher return on our investment through management and other fees, which leverage our skills in acquiring, repositioning, redeveloping and managing multifamily investments. In addition, the joint venture investment strategy can provide a platform for creating more capital diversification and lower investment risk for Mid-America.

### Disposition Strategy

Mid-America from time-to-time disposes of mature assets, defined as those apartment communities that no longer meet our investment criteria and long-term strategic objectives. Typically, Mid-America selects assets for disposition that do not meet our present investment criteria including estimated future return on investment, location, market, potential for growth, and capital needs. Mid-America may from time-to-time also dispose of assets for which we receive an offer meeting or exceeding our return on investment criteria even though those assets may not meet the disposition criteria disclosed above. No apartment communities were sold during 2006.

### Acquisition Strategy

One of Mid-America's growth strategies is to acquire and redevelop apartment communities that meet our investment criteria and focus as discussed above. Mid-America has extensive experience and research-based skills in the acquisition and repositioning of multifamily communities. In addition, Mid-America will acquire newly built and developed communities that can be purchased on a favorable pricing basis. Mid-America will continue to evaluate opportunities that arise, and will utilize this strategy to increase the number of apartment communities in strong and growing markets in the Sunbelt region of the United States.

The following apartment communities were purchased during 2006:

Property	Location	Number of Units	Date Purchased
<b>100% Owned Properties:</b>			
Preserve at Brier Creek	Raleigh, NC	250	January 19, 2006
Silverado	Austin, TX	312	March 23, 2006
Grand Courtyard	Dallas, TX	390	April 27, 2006
Reserve at Woodwind Lakes	Houston, TX	328	September 6, 2006
Talus Ranch at Sonoran Foothills	Phoenix, AZ	480	September 29, 2006

Oaks at Wilmington Island

Savannah, GA

306

October 12, 2006

2,066

## Development Strategy

In 2006, Mid-America began some expansion development projects at existing apartment communities on adjacent land already owned by us. We do not currently intend to expand into development in a significant way. We prefer to capture accretive new growth through opportunistically acquiring new properties.

## COMMON AND PREFERRED STOCK

Mid-America continuously reviews opportunities for lowering our cost of capital, and increasing value per share. Mid-America evaluates opportunities to repurchase stock when we believe that our stock price is below the value of our assets and accordingly repurchased common stock, funded by asset sales, between 1999 and 2001. Mid-America also looks for opportunities where we can acquire or develop apartment communities, selectively funded or partially funded by stock sales, when it will add to shareholder value and the investment return is projected to substantially exceed our cost of capital. Mid-America will also opportunistically seek to lower our cost of capital through refinancing preferred stock as we did in 2003 and 2006.

In May 2006, Mid-America sold 1,150,000 shares of common stock through a public offering, receiving net proceeds of \$59.5 million. Mid-America used \$10 million to redeem all of our issued and outstanding 8 5/8% Series G Cumulative Redeemable Preferred Stock shares on May 26, 2006.

On November 3, 2006, Mid-America entered into a sales agreement with Cantor Fitzgerald & Co. to sell up to 2,000,000 shares of Mid-America's common stock, from time-to-time in at-the-market offerings or negotiated transactions through a controlled equity offering program. From November 3, 2006, until the end of 2006, Mid-America sold 194,000 shares of common stock for net proceeds of \$11.4 million after underwriting commissions and SEC fees.

Mid-America also has a direct stock purchase plan which allows for the optional purchase of common stock of at least \$250, but not more than \$5,000 in any given month, free of brokerage commissions and charges. We, in our absolute discretion, may grant waivers to allow for optional cash payments in excess of \$5,000. Throughout 2006, we issued a total of 1,356,015 shares through our direct stock purchase plan at an average 1.5% discount.

## SHARE REPURCHASE PROGRAM

In 1999, Mid-America's Board of Directors approved an increase in the number of shares of Mid-America's common stock authorized to be repurchased to 4 million shares. As of December 31, 2006, Mid-America had repurchased a total of approximately 1.86 million shares (8% of the shares of common stock and common units outstanding as of the beginning of the repurchase program). From time-to-time, we intend to sell assets based on our disposition strategy outlined in this Annual Report and use the proceeds to repurchase shares when we believe that shareholder value is enhanced. Factors affecting this determination include the share price, asset dispositions and pricing, financing agreements and rates of return of alternative investments. No shares were repurchased from 2002 through 2006 under this plan.

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## COMPETITION

All of Mid-America's apartment communities are located in areas that include other apartment communities. Occupancy and rental rates are affected by the number of competitive apartment communities in a particular area. The owners of competing apartment communities may have greater resources than Mid-America, and the managers of these apartment communities may have more experience than Mid-America's management. Moreover, single-family rental housing, manufactured housing, condominiums and the new and existing home markets provide housing alternatives to potential residents of apartment communities.

Apartment communities compete on the basis of monthly rent, discounts, and facilities offered such as apartment size and amenities, and apartment community amenities, including recreational facilities, resident services, and physical property condition. Mid-America makes capital improvements to both our apartment communities and individual apartments on a regular basis in order to maintain a competitive position in each individual market.

## **ENVIRONMENTAL MATTERS**

As part of the acquisition process, Mid-America obtains environmental studies on all of our apartment communities from various outside environmental engineering firms. The purpose of these studies is to identify potential sources of contamination at the apartment communities and to assess the status of environmental regulatory compliance. These studies generally include historical reviews of the apartment communities, reviews of certain public records, preliminary investigations of the sites and surrounding properties, visual inspection for the presence of asbestos, PCBs and underground storage tanks and the preparation and issuance of written reports. Depending on the results of these studies, more invasive procedures, such as soil sampling or ground water analysis, will be performed to investigate potential sources of contamination. These studies must be satisfactorily completed before Mid-America takes ownership of an acquisition community, however, no assurance can be given that the studies identify all significant environmental problems.

Under various Federal, state and local laws and regulations, an owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on properties. Such laws often impose such liability without regard to whether the owner caused or knew of the presence of hazardous or toxic substances and whether or not the storage of such substances was in violation of a resident's lease. Furthermore, the cost of remediation and removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner's ability to sell such real estate or to borrow using such real estate as collateral.

Mid-America is aware of environmental concerns specifically relating to potential issues resulting from mold in residential properties and has in place an active management and preventive maintenance program that includes procedures specifically related to mold. Mid-America has established a policy requiring residents to sign a mold addendum to lease. Mid-America has also purchased a \$2 million insurance policy that covers remediation and exposure to mold. The current policy expires in 2007 but is renewable at that time. Mid-America, therefore, believes that our exposure to this issue is limited and controlled.

The environmental studies received by Mid-America have not revealed any material environmental liabilities. Mid-America is not aware of any existing conditions that would currently be considered an environmental liability. Nevertheless, it is possible that the studies do not reveal all environmental liabilities or that there are material environmental liabilities of which Mid-America is unaware. Moreover, no assurance can be given concerning future laws, ordinances or regulations, or the potential introduction of hazardous or toxic substances by neighboring properties or residents.

Mid-America believes that our apartment communities are in compliance in all material respects with all applicable Federal, state and local ordinances and regulations regarding hazardous or toxic substances and other environmental matters.

## **WEBSITE ACCESS TO REGISTRANT'S REPORTS**

Mid-America files annual and periodic reports with the Securities and Exchange Commission. All filings made by Mid-America with the SEC may be copied or read at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling

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the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC as Mid-America does. The website is <http://www.sec.gov>.



Additionally, a copy of this Annual Report on Form 10-K, along with Mid-America's Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to the aforementioned filings, are available on Mid-America's website free of charge. The filings can be found on the Investor Relations page under SEC Filings. Mid-America's website also contains our Corporate Governance Guidelines, Code of Business Conduct and Ethics and the charters of the committees of the Board of Directors. These items can also be found on the Investor Relations page under Company Info and Governance. Mid-America's website address is <http://www.maac.net>. Reference to Mid-America's website does not constitute incorporation by reference of the information contained on the site and should not be considered part of this document. All of the aforementioned materials may also be obtained free of charge by contacting the Investor Relations Department at Mid-America Apartment Communities, Inc., 6584 Poplar Avenue, Suite 300, Memphis, TN 38138.

## RECENT DEVELOPMENTS

### Distribution

In February 2007, Mid-America announced a monthly distribution to our Series F Cumulative Redeemable Preferred Stock shareholders of \$0.1927 per share, which is payable on March 15, 2007.

### Dispositions

On January 12, 2007, the sole property in Mid-America's joint venture with Crow Holdings, Verandas at Timberglen, a 522-unit community in Dallas, TX, was sold. In conjunction with the sale, Mid-America sold our ownership interest in the joint venture to Crow Holdings. As a result, Mid-America booked a gain on sale of \$5.4 million and an incentive fee of \$1 million, both of which will be recorded in Mid-America's 2007 consolidated financial statements. Following these transactions, Mid-America had no joint venture interests.

## ITEM 1A. RISK FACTORS

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

### Failure to Generate Sufficient Cash Flows Could Limit our Ability to Pay Distributions to Shareholders

Mid-America's ability to generate sufficient cash flow in order to pay common dividends to our shareholders depends on our ability to generate funds from operations in excess of capital expenditure requirements and preferred dividends, and/or to have access to the markets for debt and equity financing. Funds from operations and the value of Mid-America's apartment communities may be insufficient because of factors which are beyond our control. Such events or conditions could include:

- competition from other apartment communities;
- overbuilding of new apartment units or oversupply of available apartment units in Mid-America's markets, which might adversely affect apartment occupancy or rental rates and/or require rent concessions in order to lease apartment units;
- increases in operating costs (including real estate taxes and insurance premiums) due to inflation and other factors, which may not be offset by increased rents;
- Mid-America's inability to rent apartments on favorable economic terms;
- changes in governmental regulations and the related costs of compliance;

- changes in tax laws and housing laws including the enactment of rent control laws or other laws regulating multifamily housing;
- an uninsured loss, resulting from a catastrophic storm or act of terrorism;
- changes in interest rate levels and the availability of financing, which could lead renters to purchase homes (if interest rates decrease and home loans are more readily available) or increase Mid-America's acquisition and operating costs (if interest rates increase and financing is less readily available);
- weakness in the overall economy which lowers job growth and the associated demand for apartment housing; and
- the relative illiquidity of real estate investments.

At times, Mid-America relies on external funding sources to fully fund the payment of distributions to shareholders and our capital investment program (including our existing property expansion developments). While Mid-America has sufficient liquidity to permit distributions at current rates through additional borrowings if necessary, any significant and sustained deterioration in operations could result in our financial resources being insufficient to pay distributions to shareholders at the current rate, in which event Mid-America would be required to reduce the distribution rate. Any decline in Mid-America's funds from operations could adversely affect Mid-America's ability to make distributions to our shareholders or to meet our loan covenants and could have a material adverse effect on Mid-America's stock price.

#### **Debt Level, Refinancing and Loan Covenant Risk May Adversely Affect Financial Condition and Operating Results and Our Ability to Maintain Our Status as a REIT**

At December 31, 2006, Mid-America had total debt outstanding of \$1.2 billion. Payments of principal and interest on borrowings may leave Mid-America with insufficient cash resources to operate the apartment communities or pay distributions that are required to be paid in order for Mid-America to maintain our qualification as a REIT. Mid-America currently intends to limit our total debt to approximately 60% of the undepreciated book value of our assets, although our charter and bylaws do not limit our debt levels. Circumstances may cause Mid-America to exceed that target from time-to-time. As of December 31, 2006, Mid-America's ratio of debt to undepreciated book value was approximately 52%. Mid-America's Board of Directors can modify this policy at any time which could allow Mid-America to become more highly leveraged and decrease our ability to make distributions to our shareholders. In addition, Mid-America must repay its debt upon maturity, and the inability to access debt or equity capital at attractive rates could adversely affect Mid-America's financial condition and/or our funds from operations. Mid-America relies on Fannie Mae and Freddie Mac, which we refer to as the agencies, for the majority of our debt financing and has agreements with the agencies and with other lenders that require us to comply with certain covenants. The breach of any one of these covenants would place Mid-America in default with our lenders and may have serious consequences on the operations of Mid-America.

#### **Variable Interest Rates May Adversely Affect Funds from Operations**

At December 31, 2006, effectively \$226 million of Mid-America's debt bore interest at a variable rate and was not hedged by interest rate swaps or caps. Mid-America may incur additional debt in the future that also bears interest at variable rates. Variable rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect Mid-America's funds from operations and the amounts available to pay distributions to shareholders. Mid-America's \$1.0 billion secured credit facilities with Prudential Mortgage Capital, credit enhanced by Fannie Mae, are predominately floating rate facilities. Mid-America also has credit facilities with Freddie Mac totaling \$300 million which are variable rate facilities. At December 31, 2006, a total of \$988 million was outstanding under these facilities. These facilities represent the majority of the variable interest rates Mid-America was exposed to at December 31, 2006. Large portions of the interest rates on these facilities have been hedged by means of a number of interest rate swaps and caps. Upon the termination of these swaps and caps, Mid-America will be exposed to the risks of varying interest rates.

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#### **Issuances of Additional Debt or Equity May Adversely Impact Our Financial Condition**

Our capital requirements depend on numerous factors, including the occupancy rates of our apartment communities, dividend payment rates to our shareholders, development and capital expenditures, costs of operations and potential acquisitions. Mid-America cannot accurately predict the timing and amount of our capital requirements. If our capital requirements vary materially from our plans, Mid-America may require additional financing sooner than anticipated. Accordingly, Mid-America could become more leveraged, resulting in increased risk of default on our obligations and in an increase in our debt service requirements, both of which could adversely affect our financial condition and ability to access debt and equity capital markets in the future.

#### **Increasing Real Estate Taxes and Insurance Costs May Negatively Impact Financial Condition**

Because Mid-America has substantial real estate holdings, the cost of real estate taxes and insuring its apartment communities is a significant component of expense. Real estate taxes and insurance premiums are subject to significant increases and fluctuations which can be widely outside of the control of Mid-America. If the costs associated with real estate taxes and insurance should rise, Mid-America's financial condition could be negatively impacted and Mid-America's ability to pay our dividend could be affected.

#### **Losses from Catastrophes May Exceed Our Insurance Coverage**

Mid-America carries comprehensive liability and property insurance on our communities, and intends to obtain similar coverage for communities we acquire in the future. Some losses, generally of a catastrophic nature, such as losses from floods, hurricanes or earthquakes, are subject to limitations, and thus may be uninsured. Mid-America exercises our discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance on our investments at a reasonable cost and on suitable terms. If Mid-America suffers a substantial loss, our insurance coverage may not be sufficient to pay the full current market value or current replacement value of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it infeasible to use insurance proceeds to replace a property after it has been damaged or destroyed.

#### **Property Insurance Limits May be Inadequate and Deductibles May be Excessive in the Event of a Catastrophic Loss or a Series of Major Losses, and May Cause a Breach of a Loan Covenant**

Mid-America has a significant proportion of our assets in areas exposed to windstorms and to the New Madrid earthquake zone. A major wind or earthquake loss, or series of losses, could require that Mid-America pay significant deductibles as well as additional amounts above the \$40 million per occurrence limit of Mid-America's insurance for these risks. Mid-America may then be judged to have breached one or more of our loan covenants, and any of the foregoing events could have a material adverse effect on Mid-America's assets, financial condition, and results of operation.

#### **New Acquisitions May Fail to Perform as Expected and Failure to Integrate Acquired Communities and New Personnel Could Create Inefficiencies**

Mid-America intends to actively acquire and improve multifamily communities for rental operations. Mid-America may underestimate the costs necessary to bring an acquired community up to standards established for our intended market position. Additionally, to grow successfully, Mid-America must be able to apply our experience in managing our existing portfolio of apartment communities to a larger number of properties. Mid-America must also be able to integrate new management and operations personnel as our organization grows in size and complexity. Failures in either area will result in inefficiencies that could adversely affect our overall profitability.

#### **Mid-America May Not Be Able To Sell Communities When Appropriate**

Real estate investments are relatively illiquid and generally cannot be sold quickly. Mid-America may not be able to change our portfolio promptly in response to economic or other conditions. This inability to respond promptly to changes in the performance of our investments could adversely affect our financial condition and ability to make distributions to our security holders.

### **Environmental Problems are Possible and Can be Costly**

Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at such community. The owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the contaminants. Even if more than one person may have been responsible for the contamination each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site. All of our communities have been the subject of environmental assessments completed by qualified independent environmental consultant companies. These environmental assessments have not revealed, nor is Mid-America aware of, any environmental liability that our management believes would have a material adverse effect on our business, results of operations, financial condition or liquidity. Over the past four years, there have been an increasing number of lawsuits against owners and managers of multifamily properties alleging personal injury and property damage caused by the presence of mold in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. Mid-America cannot be assured that existing environmental assessments of our communities reveal all environmental liabilities, that any prior owner of any of our properties did not create a material environmental condition not known to Mid-America, or that a material environmental condition does not otherwise exist.

### **Compliance or Failure to Comply with Laws Requiring Access to Our Properties by Disabled Persons Could Result in Substantial Cost**

The Americans with Disabilities Act, the Fair Housing Act of 1988 and other federal, state and local laws generally require that public accommodations be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the government or the award of damages to private litigants. These laws may require Mid-America to modify our existing communities. These laws may also restrict renovations by requiring improved access to such buildings by disabled persons or may require Mid-America to add other structural features that increase our construction costs. Legislation or regulations adopted in the future may impose further burdens or restrictions on Mid-America with respect to improved access by disabled persons. Mid-America cannot ascertain the costs of compliance with these laws, which may be substantial.

### **Our Ownership Limit Restricts the Transferability of Our Capital Stock**

Our charter limits ownership of our capital stock by any single shareholder to 9.9% of the value of all outstanding shares of our capital stock, both common and preferred. The charter also prohibits anyone from buying shares if the purchase would result in our losing REIT status. This could happen if a share transaction results in fewer than 100 persons owning all of our shares or in five or fewer persons, applying certain broad attribution rules of the Internal Revenue Code of 1986, as amended, or the Code, owning 50% or more of our shares. If you acquire shares in excess of the ownership limit or in violation of the ownership requirements of the Code for REITs, we:

- will consider the transfer to be null and void;
- will not reflect the transaction on our books;
- may institute legal action to enjoin the transaction;
- will not pay dividends or other distributions with respect to those shares;
- will not recognize any voting rights for those shares;
- will consider the shares held in trust for our benefit; and
- will either direct you to sell the shares and turn over any profit to us, or we will redeem the shares. If we redeem the shares, you will be paid a price equal to the lesser of:

(a) the price you paid for the shares; or

11

(b) the average of the last reported sales prices on the New York Stock Exchange on the ten trading days immediately preceding the date fixed for redemption by our Board of Directors.

If you acquire shares in violation of the limits on ownership described above:

- you may lose your power to dispose of the shares;
- you may not recognize profit from the sale of such shares if the market price of the shares increases; and
- you may be required to recognize a loss from the sale of such shares if the market price decreases.

### **Provisions of Our Charter and Tennessee Law May Limit the Ability of a Third Party to Acquire Control of Us**

#### ***Ownership Limit***

The 9.9% ownership limit discussed above may have the effect of precluding acquisition of control of us by a third party without the consent of our Board of Directors.

#### ***Preferred Stock***

Our charter authorizes our Board of Directors to issue up to 20,000,000 shares of preferred stock. The Board of Directors may establish the preferences and rights of any preferred shares issued. The issuance of preferred stock could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our shareholders' best interests. Currently, we have the following amounts of preferred stock issued and outstanding:

- 474,500 shares of 9 1/4% Series F Cumulative Redeemable Preferred Stock;
- 6,200,000 shares of 8.30% Series H Cumulative Redeemable Preferred Stock.

#### ***Tennessee Anti-Takeover Statutes***

As a Tennessee corporation, we are subject to various legislative acts which impose restrictions on and require compliance with procedures designed to protect shareholders against unfair or coercive mergers and acquisitions. These statutes may delay or prevent offers to acquire us and increase the difficulty of consummating any such offers, even if our acquisition would be in our shareholders' best interests.

#### ***Our Investments in Joint Ventures May Involve Risks***

Investments in joint ventures may involve risks which may not otherwise be present in our direct investments such as:

- the potential inability of our joint venture partner to perform;
- the joint venture partner may have economic or business interests or goals which are inconsistent with or adverse to ours;
- the joint venture partner may take actions contrary to our requests or instructions or contrary to our objectives or policies; and
- the joint venturers may not be able to agree on matters relating to the property they jointly own.

Although each joint owner will have a right of first refusal to purchase the other owner's interest, in the event a sale is desired, the joint owner may not have sufficient resources to exercise such right of first refusal.

### **Failure to Qualify as a REIT Would Cause Mid-America to be Taxed as a Corporation**

If Mid-America fails to qualify as a REIT for federal income tax purposes, Mid-America will be taxed as a corporation. The Internal Revenue Service may challenge our qualification as a REIT for prior years, and new legislation, regulations, administrative interpretations or court decisions may change the tax laws with respect to qualification as a REIT or the federal tax consequences of such qualification. For any taxable year that Mid-America fails to qualify as a REIT, Mid-America would be subject to federal income tax on our taxable income at corporate

12

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rates, plus any applicable alternative minimum tax. In addition, unless entitled to relief under applicable statutory provisions, Mid-America would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce our net earnings available for investment or distribution to shareholders because of the additional tax liability for the year or years involved. In addition, distributions would no longer qualify for the dividends paid deduction nor be required to be made in order to preserve REIT status. Mid-America might be required to borrow funds or to liquidate some of our investments to pay any applicable tax resulting from our failure to qualify as a REIT.

### **Failure to Make Required Distributions Would Subject Mid-America to Income Taxation**

In order to qualify as a REIT, each year Mid-America must distribute to stockholders at least 90% of its REIT taxable income (determined without regard to the dividend paid deduction and by excluding net capital gains). To the extent that Mid-America satisfies the distribution requirement, but distributes less than 100% of taxable income, it will be subject to federal corporate income tax on the undistributed income. In addition, Mid-America will incur a 4% nondeductible excise tax on the amount, if any, by which the distributions in any year are less than the sum of:

- 85% of ordinary income for that year;
- 95% of capital gain net income for that year; and
- 100% of undistributed taxable income from prior years.

Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require Mid-America to borrow money or sell assets to pay out enough of the taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in a particular year.

### **Complying with REIT Requirements May Cause Mid-America to Forgo Otherwise Attractive Opportunities or Engage in Marginal Investment Opportunities**

To qualify as a REIT for federal income tax purposes, Mid-America must continually satisfy tests concerning, among other things, the sources of income, the nature and diversification of assets, the amounts distributed to shareholders and the ownership of Mid-America's stock. In order to meet these tests, Mid-America may be required to forgo attractive business or investment opportunities or engage in marginal investment opportunities. Thus, compliance with the REIT requirements may hinder Mid-America's ability to operate solely on the basis of maximizing profits.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

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Mid-America seeks to acquire apartment communities located in the Sunbelt region of the United States that are primarily appealing to middle income residents with the potential for above average growth and return on investment. Approximately 75% of Mid-America's apartment units are located in Georgia, Florida, Tennessee and Texas markets. Mid-America's strategic focus is to provide our residents high quality apartment units in attractive community settings, characterized by extensive landscaping and attention to aesthetic detail. We utilize our experience and expertise in maintenance, landscaping, marketing and management to effectively reposition many of the apartment communities we acquire to raise occupancy levels and per unit average rents.

The following table sets forth certain historical information for the apartment communities we owned or maintained an ownership interest in, including the property containing 522 apartment units owned through a joint venture, at December 31, 2006:

13

Property	Location	Year Completed	Year Management Commenced	Number of Units	Approximate	Average
					Rentable Area (Square Footage)	Unit Size (Square Footage)
<b>100% Owned</b>						
Eagle Ridge	Birmingham, AL	1986	1998	200	181,400	1,000
Abbingtion Place	Huntsville, AL	1987	1998	152	162,792	1,000
Paddock Club Huntsville	Huntsville, AL	1989/98	1997	392	414,736	1,000
Paddock Club Montgomery	Montgomery, AL	1999	1998	208	230,880	1,000
				<b>952</b>	<b>989,808</b>	<b>1,000</b>
Calais Forest	Little Rock, AR	1987	1994	260	195,000	1,000
Napa Valley	Little Rock, AR	1984	1996	240	183,120	1,000
Westside Creek I & II	Little Rock, AR	1984/86	1997	308	320,936	1,000
				<b>808</b>	<b>699,056</b>	
Talus Ranch	Phoenix, AZ	2005	2006	480	437,280	1,000
				<b>480</b>	<b>437,280</b>	
Tiffany Oaks	Altamonte Springs, FL	1985	1996	288	234,144	1,000
Marsh Oaks	Atlantic Beach, FL	1986	1995	120	93,240	1,000
Indigo Point	Brandon, FL	1989	2000	240	194,640	1,000
Paddock Club Brandon	Brandon, FL	1997/99	1997	440	516,120	1,000
Preserve at Coral Square	Coral Springs, FL	1996	2004	480	528,480	1,000
Anatole	Daytona Beach, FL	1986	1995	208	149,136	1,000
Paddock Club Gainesville	Gainesville, FL	1999	1998	264	293,040	1,000
Cooper's Hawk	Jacksonville, FL	1987	1995	208	218,400	1,000
Hunter's Ridge at Deerwood	Jacksonville, FL	1987	1997	336	295,008	1,000
Lakeside	Jacksonville, FL	1985	1996	416	344,032	1,000
Lighthouse at Fleming Island	Jacksonville, FL	2003	2003	501	556,110	1,000
Paddock Club Jacksonville	Jacksonville, FL	1989/96	1997	440	475,200	1,000
Paddock Club Mandarin	Jacksonville, FL	1998	1998	288	330,336	1,000
St. Augustine	Jacksonville, FL	1987	1995	400	304,400	1,000
Woodbridge at the Lake	Jacksonville, FL	1985	1994	188	166,004	1,000
Woodhollow	Jacksonville, FL	1986	1997	450	342,000	1,000
Paddock Club Lakeland	Lakeland, FL	1988/90	1997	464	505,296	1,000
Savannahs at James Landing	Melbourne, FL	1990	1995	256	238,592	1,000

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Paddock Park Ocala	Ocala, FL	1986/88	1997	480	485,280	1
Paddock Club Panama City	Panama City, FL	2000	1998	254	283,972	1
Paddock Club Tallahassee	Tallahassee, FL	1990/95	1997	304	329,232	1
Belmere	Tampa, FL	1984	1994	210	202,440	
Links at Carrollwood	Tampa, FL	1980	1998	230	214,820	
				<b>7,465</b>	<b>7,299,922</b>	

14

Property	Location	Year Completed	Year Commenced	Number of Units	Approximate	Average
					Rentable Area (Square Footage)	Unit Size (Square Footage)
High Ridge	Athens, GA	1987	1997	160	186,560	1,166
Bradford Pointe	Augusta, GA	1986	1997	192	156,288	814
Shenandoah Ridge	Augusta, GA	1982	1994	272	222,768	819
Westbury Creek	Augusta, GA	1984	1997	120	107,040	892
Fountain Lake	Brunswick, GA	1983	1997	110	129,800	1,180
Park Walk	College Park, GA	1985	1997	124	112,716	909
Whisperwood	Columbus, GA	80/82/84/86/98	1997	1,008	1,220,688	1,211
Willow Creek	Columbus, GA	1971/77	1997	285	246,810	866
Terraces at Fieldstone	Conyers, GA	1999	1998	316	351,076	1,111
Prescott	Duluth, GA	2001	2004	384	370,176	964
Lanier	Gainesville, GA	1998	2005	344	395,944	1,151
Lake Club	Gainesville, GA	2001	2005	313	359,950	1,150
Whispering Pines	LaGrange, GA	1982/84	1997	216	223,128	1,033
Westbury Springs	Lilburn, GA	1983	1997	150	137,700	918
Austin Chase	Macon, GA	1996	1997	256	292,864	1,144
The Vistas	Macon, GA	1985	1997	144	153,792	1,068
Walden Run	McDonough, GA	1997	1998	240	271,200	1,130
Georgetown Grove	Savannah, GA	1997	1998	220	239,800	1,090
Oaks at Wilmington Island	Savannah, GA	1999	2006	306	300,492	982
Wildwood	Thomasville, GA	1980/84	1997	216	223,128	1,033
Hidden Lake	Union City, GA	1985/87	1997	320	342,400	1,070
Three Oaks	Valdosta, GA	1983/84	1997	240	247,920	1,033
Huntington Chase	Warner Robins, GA	1997	2000	200	218,400	1,092
Southland Station	Warner Robins, GA	1987/90	1997	304	354,768	1,167
Terraces at Townelake	Woodstock, GA	1999	1998	502	575,794	1,147
				<b>6,942</b>	<b>7,441,202</b>	<b>1,072</b>
Fairways at Hartland	Bowling Green, KY	1996	1997	240	251,280	1,047
Paddock Club Florence	Florence, KY	1994	1997	200	207,000	1,035
Grand Reserve Lexington	Lexington, KY	2000	1999	370	432,530	1,169
Lakepointe	Lexington, KY	1986	1994	118	90,624	768



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Mansion, The	Lexington, KY	1989	1994	184	138,736	754
Village, The	Lexington, KY	1989	1994	252	182,700	725
Stonemill Village	Louisville, KY	1985	1994	384	324,096	844
				<b>1,748</b>	<b>1,626,966</b>	<b>931</b>
Riverhills	Grenada, MS	1972	1985	96	81,984	854
Crosswinds	Jackson, MS	1988/90	1996	360	443,160	1,231
Pear Orchard	Jackson, MS	1985	1994	389	338,430	870

15

Property	Location	Year		Number	Approximate	Average
		Completed	Commenced		Rentable	Unit Size
		Year	Management	of Units	Area (Square	(Square
		Completed	Commenced	of Units	Footage)	Footage)
Reflection Pointe	Jackson, MS	1986	1988	296	254,856	861
Somerset	Jackson, MS	1981	1995	144	126,864	881
Woodridge	Jackson, MS	1987	1988	192	175,104	912
Lakeshore Landing	Ridgeland, MS	1974	1994	196	171,108	873
Savannah Creek	Southaven, MS	1989	1996	204	237,048	1,162
Sutton Place	Southaven, MS	1991	1996	253	268,686	1,062
				<b>2,130</b>	<b>2,097,240</b>	<b>985</b>
Hermitage at Beechtree	Cary, NC	1988	1997	194	169,750	875
Waterford Forest	Cary, NC	1996	2005	384	344,448	897
Woodstream	Greensboro, NC	1983	1994	304	217,056	714
Corners, The	Winston-Salem, NC	1982	1993	240	173,520	723
Preserve at Brier Creek	Raleigh, NC	2002	2006	250	270,750	1,083
				<b>1,372</b>	<b>1,175,524</b>	<b>857</b>
Fairways at Royal Oak	Cincinnati, OH	1988	1994	214	214,428	1,002
				<b>214</b>	<b>214,428</b>	<b>1,002</b>
Colony at South Park	Aiken, SC	1989/91	1997	184	174,800	950
Woodwinds	Aiken, SC	1988	1997	144	165,168	1,147
Tanglewood	Anderson, SC	1980	1994	168	146,664	873
Fairways, The	Columbia, SC	1992	1994	240	213,840	891
Paddock Club Columbia	Columbia, SC	1989/95	1997	336	367,584	1,094
Highland Ridge	Greenville, SC	1984	1995	168	143,976	857
Howell Commons	Greenville, SC	1986/88	1997	348	292,668	841
Paddock Club Greenville	Greenville, SC	1996	1997	208	212,160	1,020
Park Haywood	Greenville, SC	1983	1993	208	156,832	754
Spring Creek	Greenville, SC	1985	1995	208	182,000	875
Runaway Bay	Mt. Pleasant, SC	1988	1995	208	177,840	855
Park Place	Spartanburg, SC	1987	1997	184	195,224	1,061
				<b>2,604</b>	<b>2,428,756</b>	<b>933</b>
Hamilton Pointe	Chattanooga, TN	1989	1992	361	256,671	711
Hidden Creek	Chattanooga, TN	1987	1988	300	259,200	864
Steeplechase	Chattanooga, TN	1986	1991	108	98,604	913

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Windridge	Chattanooga, TN	1984	1997	174	238,728	1,372	\$
Oaks, The	Jackson, TN	1978	1993	100	87,500	875	\$
Post House Jackson	Jackson, TN	1987	1989	150	163,650	1,091	\$
Post House North	Jackson, TN	1987	1989	144	144,720	1,005	\$
Bradford Chase	Jackson, TN	1987	1994	148	121,360	820	\$
Woods at Post House	Jackson, TN	1997	1995	122	118,950	975	\$

16

Property	Location	Year Completed	Year Management Commenced	Number of Units	Approximate	Average
					Rentable Area (Square Footage)	Unit Size (Square Footage)
Cedar Mill	Memphis, TN	1973/86	1982/94	276	297,804	1,079
Gleneagles	Memphis, TN	1975	1990	184	189,520	1,030
Greenbrook	Memphis, TN	1974/78/83/86	1988	1,037	939,522	906
Hickory Farm	Memphis, TN	1985	1994	200	150,200	751
Kirby Station	Memphis, TN	1978	1994	371	310,156	836
Lincoln on the Green	Memphis, TN	1988/98	1994	618	535,188	866
Park Estate	Memphis, TN	1974	1977	82	96,924	1,182
Reserve at Dexter Lake	Memphis, TN	1999/01	1998	740	792,540	1,071
River Trace	Memphis, TN	1981/85	1997	440	370,920	843
Paddock Club Murfreesboro	Murfreesboro, TN	1999	1998	240	268,800	1,120
Brentwood Downs	Nashville, TN	1986	1994	286	220,220	770
Grand View Nashville	Nashville, TN	2001	1999	433	479,331	1,107
Monthaven Park	Nashville, TN	2001	2004	456	427,728	938
Park at Hermitage	Nashville, TN	1987	1995	440	392,480	892
				<b>7,410</b>	<b>6,960,716</b>	<b>939</b>
Northwood	Arlington, TX	1980	1998	270	224,100	830
Balcones Woods	Austin, TX	1983	1997	384	313,728	817
Grand Reserve at Sunset Valley	Austin, TX	1996	2004	210	198,240	944
Silverado	Austin, TX	2003	2006	312	303,264	972
Stassney Woods	Austin, TX	1985	1995	288	248,832	864
Travis Station	Austin, TX	1987	1995	304	249,888	822
Woods, The	Austin, TX	1977	1997	278	214,060	770
Celery Stalk	Dallas, TX	1978	1994	410	374,740	914
Courtyards at Campbell	Dallas, TX	1986	1998	232	168,200	725
Deer Run	Dallas, TX	1985	1998	304	206,720	680
Grand Courtyard	Dallas, TX	2000	2006	390	341,250	875
Lodge at Timberglen	Dallas, TX	1983	1994	260	226,200	870
Watermark	Dallas, TX	2002	2004	240	205,200	855
Legacy Pines	Houston, TX	1999	2003	308	283,360	920
Reserve at Woodwind Lakes	Houston, TX	1999	2006	328	316,192	964
Westborough Crossing	Katy, TX	1984	1994	274	197,280	720
Kenwood Club	Katy, TX	2000	1999	320	318,080	994

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Lane at Towne Crossing	Mesquite, TX	1983	1994	384	277,632	723
Highwood	Plano, TX	1983	1998	196	156,800	800
Los Rios Park	Plano, TX	2000	2003	498	470,112	944
Boulder Ridge	Roanoke, TX	1999	2005	478	429,244	898

17

Property	Location	Year Completed	Year Management Commenced	Number of Units	Area (Square Footage)	Average Unit Size (Square Footage)	Approximate Average Rent per Unit at	Average Occupancy Percent at
							December 31, 2006	December 31, 2006
Cypresswood Court	Spring, TX	1984	1994	208	160,576	772	\$ 642.03	97.60%
Villages at Kirkwood	Stafford, TX	1996	2004	274	244,682	893	\$ 881.50	97.81%
Green Tree Place	Woodlands, TX	1984	1994	200	152,200	761	\$ 698.56	96.50%
				<b>7,350</b>	<b>6,280,580</b>	<b>855</b>	<b>\$ 730.23</b>	<b>94.53%</b>
Township	Hampton, VA	1987	1995	296	248,048	838	\$ 877.94	94.26%
<b>Subtotal 100% Owned</b>				<b>296</b>	<b>248,048</b>	<b>838</b>	<b>\$ 877.94</b>	<b>94.26 %</b>
				<b>39,771</b>	<b>37,899,526</b>	<b>953</b>	<b>\$ 728.72</b>	<b>93.58%</b>
<b>Joint Venture Properties</b>								
Verandas at Timberglen	Dallas, TX	1999	2004	522	500,076	958	\$ 1,133.44	92.91%
<b>Subtotal Joint Venture Properties</b>				<b>522</b>	<b>500,076</b>	<b>958</b>	<b>\$ 1,133.44</b>	<b>92.91%</b>
<b>Total 100% Owned and Joint Venture Properties</b>				<b>40,293</b>	<b>38,399,602</b>	<b>953</b>	<b>\$ 733.96</b>	<b>93.57%</b>

- (1) Encumbered by a \$691.8 million FNMA facility, with \$691.8 million available and \$565.8 million outstanding with a variable interest rate of 5.87% on which there exists in combination with the FNMA facility mentioned in note (2) thirteen interest rate swap agreements totaling \$490 million at an average rate of 5.50% at December 31, 2006.
- (2) Encumbered by a \$243.2 million FNMA facility, with \$243.2 million available and \$168.6 million outstanding, \$90 million with a fixed rate of 7.49% and \$78.6 million of which had a variable interest rate of 5.87% on which there exists interest rate swaps as mentioned in note (1) at December 31, 2006.
- (3) Phase I of Paddock Park - Ocala is encumbered by \$6.8 million in bonds on which there exists a \$6.8 million interest rate cap of 6.000% which terminates on October 24, 2007.
- (4) Encumbered, along with one corporate property, by a term loan with a principal balance of \$40 million at December 31, 2006, with a maturity of April 1, 2009 and an interest rate of 6.369% on which there is a \$25 million interest rate swap agreement with a rate of 4.98%, maturing on March 1, 2009.
- (5) Encumbered by a credit line with AmSouth Bank, with an outstanding balance of \$4.6 million at December 31, 2006.
- (6) Encumbered by a \$100 million Freddie Mac facility, with \$96.4 million available and an outstanding balance of \$96.4 million and a variable interest

rate of 5.89% on which there exists five interest rate swap agreements totaling \$83 million at an average rate of 5.41% at December 31, 2006.

- (7) Encumbered by a \$200 million Freddie Mac facility, with \$47.3 million available and an outstanding balance of \$47.3 million and a variable interest rate of 5.88% on which there exists two interest rate swap agreements totaling \$20 million at an average rate of 6.34% at December 31, 2006.
- (8) Encumbered by a mortgage securing a tax-exempt bond amortizing over 25 years with a principal balance of \$12.2 million at December 31, 2006, and an average interest rate of 5.23%.
- (9) Encumbered by \$8.4 million in bonds on which there exists a \$8.4 million interest rate swap agreement fixed at 4.73% and maturing on September 15, 2010.
- (10) Encumbered by \$7.0 million in bonds on which there exists a \$7.0 million interest rate swap agreement fixed at 3.94% and maturing on October 24, 2007.
- (11) Encumbered by \$5.9 million in bonds on which there exists a \$5.9 million interest rate swap agreement fixed at 5.05% and maturing on June 15, 2008.
- (12) Encumbered by \$7.7 million in bonds on which there exists a \$7.7 million interest rate swap agreement fixed at 5.05% and maturing on June 15, 2008.
- (13) Encumbered by \$3.4 million in bonds on which there exists a \$3.4 million interest rate swap agreement fixed at 5.05% and maturing on June 15, 2008.

18

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- (14) Encumbered by \$10.8 million in bonds on which there exists a \$10.8 million interest rate swap agreement fixed at 3.95% and maturing on October 24, 2007.
- (15) Encumbered by \$3.5 million in bonds \$0.5 million having a variable rate of 5.40% and \$3.0 million with a variable rate of 4.64% on which there exists a \$3.0 million interest rate swap agreement fixed at 3.23% and maturing on May 30, 2008.
- (16) Encumbered by \$5.5 million in bonds \$0.5 million having a variable rate of 5.40% and \$5.0 million with a variable rate of 4.64% on which there exists a \$5.0 million interest rate swap agreement fixed at 3.23% and maturing on May 30, 2008.
- (17) Encumbered by \$6.6 million in bonds on which there exists a \$6.6 million interest rate swap agreement fixed at 3.63% and maturing on March 15, 2009. Also encumbered by a \$17.9 million FNMA facility maturing on March 1, 2014 with a variable interest rate of 5.93% which there exists a \$11.7 million and a \$6.2 million interest rate cap of 6.0% and 6.5% respectively which terminates on March 1, 2009 and March 15, 2011 respectively.
- (18) Encumbered by \$4.0 million in bonds on which there exists a \$4.0 million interest rate cap of 6.0% which terminates on March 15, 2009. Also encumbered by a \$17.9 million FNMA facility maturing on March 1, 2014 with a variable interest rate of 5.93% which there exists a \$11.7 million and a \$6.2 million interest rate cap of 6.0% and 6.5% respectively which terminates on March 1, 2009 and March 15, 2011 respectively.
- (19) Encumbered by \$3.6 million in bonds on which there exists a \$3.6 million interest rate swap agreement fixed at 3.63% and maturing on March 15, 2009. Also encumbered by a \$17.9 million FNMA facility maturing on March 1, 2014 with a variable interest rate of 5.93% which there exists a \$11.7 million and a \$6.2 million interest rate cap of 6.0% and 6.5% respectively which terminates on March 1, 2009 and March 15, 2011 respectively.

(20)

Encumbered by \$13.2 million in bonds on which there exists a \$13.2 million interest rate cap of 6.00% and maturing on March 15, 2011. Also encumbered by a \$17.9 million FNMA facility maturing on March 1, 2014 with a variable interest rate of 5.93% which there exists a \$11.7 million and \$6.2 million interest rate cap of 6.0% and 6.5% respectively which terminates on March 1, 2009 and March 1, 2011 respectively.

### ITEM 3. LEGAL PROCEEDINGS

Mid-America is not presently subject to any material litigation nor, to Mid-America's knowledge, is any material litigation threatened against us. Mid-America is presently subject to routine litigation arising in the ordinary course of business, some of which is expected to be covered by liability insurance and none of which is expected to have a material adverse effect on the business, financial condition, liquidity or results of operations of Mid-America.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

19

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Mid-America's common stock has been listed and traded on the New York Stock Exchange, or NYSE, under the symbol "MAA" since our initial public offering in February 1994. On February 9, 2007, the reported last sale price of Mid-America's common stock on the NYSE was \$59.80 per share, and there were approximately 1,400 holders of record of the common stock. Mid-America believes we have a significantly larger number of beneficial owners of our common stock. The following table sets forth the quarterly high and low sales prices of our common stock as reported on the NYSE and the dividends declared by Mid-America with respect to the periods indicated.

	Sales Prices		Dividends	Dividends
	High	Low	Paid	Declared <sup>(1)</sup>
<b>2006:</b>				
First Quarter	\$58.750	\$48.130	\$0.595	\$1.190
Second Quarter	\$56.400	\$49.320	\$0.595	\$0.595
Third Quarter	\$62.240	\$53.910	\$0.595	\$0.595
Fourth Quarter	\$65.970	\$56.000	\$0.595	\$0.605
<b>2005:</b>				
First Quarter	\$41.350	\$35.840	\$0.585	\$0.585
Second Quarter	\$46.520	\$35.620	\$0.585	\$0.585
Third Quarter	\$48.760	\$42.530	\$0.585	\$0.585
Fourth Quarter	\$50.190	\$43.050	\$0.595	\$0.595

- (1) In the first quarter of 2006, the Board of Directors began declaring the common dividend for the following quarter at their regularly scheduled board meeting. This timing change resulted in two dividend payments being declared in the same quarter.

Mid-America's quarterly dividend rate is currently \$0.605 per common share. The Board of Directors reviews and declares the dividend rate quarterly. Actual dividends made by Mid-America will be affected by a number of factors, including the gross revenues received from the apartment communities, the operating expenses of Mid-America, the interest expense incurred on borrowings and unanticipated capital expenditures.

Mid-America expects to make future quarterly distributions to shareholders; however, future distributions by Mid-America will be at the discretion of the Board of Directors and will depend on the actual funds from operations of Mid-America, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as the Board of Directors deems relevant.

Mid-America has established the Direct Stock Purchase and Distribution Reinvestment Plan, or DRSP, under which holders of common stock, preferred stock and limited partnership interests in Mid-America Apartments, L.P. can elect automatically to reinvest their distributions in additional shares of common stock. The plan also allows for the optional purchase of common stock of at least \$250, but not more than \$5,000 in any given month, free of brokerage commissions and charges. Mid-America, in our absolute discretion, may grant waivers to allow for optional cash payments in excess of \$5,000. To fulfill our obligations under the DRSP, Mid-America may either issue additional shares of common stock or repurchase common stock in the open market. Mid-America may elect to sell shares under the DRSP at up to a 5% discount.

In 2004, Mid-America issued a total of 413,598 shares through our DRSP and offered a 2% discount for optional cash purchases in the months of August through December. Throughout 2005, Mid-America issued a total of 803,251 shares through our DRSP and offered an average 1.5% discount for optional cash purchases. Throughout 2006, Mid-America issued a total of 1,356,015 shares through our DRSP and offered an average 1.5% discount for optional cash purchases.

20

The following table provides information with respect to compensation plans under which our equity securities are authorized for issuance as of December 31, 2006.

	<b>Number of Securities to be Issued upon Exercise</b>	<b>Weighted Average Exercise Price of</b>	<b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a))</b>
	<b>of Outstanding Options, Warrants and Rights</b>	<b>Outstanding Options Warrants and Rights</b>	
	<b>(a)(1)</b>	<b>(b)(1)</b>	<b>(c)(2)</b>
Equity compensation plans approved by security holders	193,291	\$24.27	472,585
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>193,291</b>	<b>\$24.27</b>	<b>472,585</b>

(1) Columns (a) and (b) above do not include 86,216 shares of restricted stock that are subject to vesting requirements which were issued through Mid-America's Fourth Amended and Restated 1994 Restricted Stock and Stock Option Plan, 99,291 shares of restricted stock that are subject to vesting requirements which were issued through Mid-America's 2004 Stock Plan, or 54,961 shares of common stock which have been purchased by employees through the Employee Stock Purchase Plan. See Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements, Note 2 for more information on these plans.

- (2) Column (c) above includes 377,546 shares available to be issued under Mid-America's 2004 Stock Plan and 95,039 shares available to be issued under Mid-America's Employee Stock Purchase Plan. See Item 8. Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements, Note 2 for more information on these plans.

Mid-America has not granted any stock options since 2002.

The following graph compares the cumulative total returns of the shareholders of Mid-America since December 30, 2000 with the S&P 500 Index and the Equity REIT Total Return Index prepared by the National Association of Real Estate Investment Trusts, or NAREIT. The graph assumes that the base share price for Mid-America's common stock and each index is \$100 and that all dividends are reinvested. The performance graph is not necessarily indicative of future investment performance.

	Dec '01	Dec '02	Dec '03	Dec '04	Dec '05	Dec '06
Mid-America Apartment Communities, Inc.	\$100.00	\$ 102.04	\$152.79	\$200.23	\$249.30	\$307.29
S & P 500	\$100.00	\$ 77.90	\$100.24	\$111.15	\$116.61	\$135.03
NAREIT Equity	\$100.00	\$ 103.82	\$142.37	\$187.33	\$210.12	\$283.78

21

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data on an historical basis for Mid-America. This data should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K.

### Mid-America Apartment Communities, Inc. Selected Financial Data (Dollars in thousands except per share data)

	Year Ended December 31,				
	2006	2005	2004	2003	2002
<b>Operating Data:</b>					
Total revenues	\$ 325,999	\$ 296,132	\$ 266,129	\$ 234,894	\$ 226,676
Expenses:					
Property operating expenses	134,316	123,663	112,349	98,098	90,131
Depreciation	79,388	74,413	68,010	57,433	53,657
Property management and general and administrative expenses	24,963	22,225	19,597	15,670	15,298
Income from continuing operations before non-operating items	87,332	75,831	66,173	63,693	67,590
Interest and other non-property income	673	498	593	835	729
Interest expense	(63,512)	(58,442)	(50,683)	(44,851)	(48,226)
(Loss) gain on debt extinguishment	(551)	(409)	1,095	111	(1,441)
Amortization of deferred financing costs	(2,036)	(2,011)	(1,753)	(2,050)	(2,700)
Minority interest in operating partnership income	(1,590)	(1,571)	(2,264)	(1,360)	(388)
(Loss) income from investments in unconsolidated entities	(114)	65	(287)	(949)	(532)
Incentive fee from unconsolidated entity	□	1,723	□	□	□
Net gain on insurance and other settlement proceeds	84	749	2,683	2,860	397
Gain on sale of non-depreciable assets	50	334	□	□	□

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Gain on disposition within unconsolidated entities		3,034	3,249		
Income from continuing operations	20,336	19,801	18,806	18,289	15,429
<b>Discontinued operations:</b>					
Income (loss) from discontinued operations before asset impairment, settlement proceeds and gain on sale	609	211	241	(84)	712
Asset impairment of discontinued operations		(243)	(200)		
Net gain (loss) on insurance and other settlement proceeds of discontinued operations		(25)	526	82	
Gain on sale of discontinued operations			5,825	1,919	
Net income	20,945	19,744	25,198	20,206	16,141
Preferred dividend distribution	13,962	14,329	14,825	15,419	16,029
Premiums and original issuance costs associated with the redemption of preferred stock				5,987	2,041
Net income (loss) available for common shareholders	\$ 6,983	\$ 5,415	\$ 10,373	\$ (1,200)	\$ (1,929)

**Per Share Data:**

Weighted average shares outstanding (in thousands):					
Basic	23,474	21,405	20,317	18,374	17,561
Effect of dilutive stock options	224	202	335		
Diluted	23,698	21,607	20,652	18,374	17,561

22

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Net income (loss) available for common shareholders	\$ 6,983	\$ 5,415	\$ 10,373	\$ (1,200)	\$ (1,929)
Discontinued property operations	(609)	57	(6,392)	(1,917)	(712)
Income (loss) from continuing operations available for common shareholders	\$ 6,374	\$ 5,472	\$ 3,981	\$ (3,117)	\$ (2,641)
<b>Earnings per share - basic:</b>					
Income (loss) from continuing operations available for common shareholders	\$ 0.27	\$ 0.26	\$ 0.20	\$ (0.17)	\$ (0.15)
Discontinued property operations	0.03	(0.01)	0.31	0.10	0.04
Net income (loss) available for common shareholders	\$ 0.30	\$ 0.25	\$ 0.51	\$ (0.07)	\$ (0.11)
<b>Earnings per share - diluted:</b>					
Income (loss) from continuing operations available for common shareholders	\$ 0.27	\$ 0.25	\$ 0.19	\$ (0.17)	\$ (0.15)
Discontinued property operations	0.02		0.31	0.10	0.04
Net income (loss) available for common shareholders	\$ 0.29	\$ 0.25	\$ 0.50	\$ (0.07)	\$ (0.11)
<b>Balance Sheet Data:</b>					
Real estate owned, at cost	\$2,218,532	\$1,987,853	\$1,862,850	\$1,695,111	\$1,478,793



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Real estate assets, net	\$ 1,669,539	\$ 1,510,289	\$ 1,459,952	\$ 1,351,849	\$ 1,192,539
Total assets	\$ 1,746,646	\$ 1,580,125	\$ 1,522,525	\$ 1,406,666	\$ 1,239,467
Total debt	\$ 1,196,349	\$ 1,140,046	\$ 1,083,473	\$ 951,941	\$ 803,703
Minority interest	\$ 32,600	\$ 29,798	\$ 31,376	\$ 32,019	\$ 33,405
Shareholders' equity	\$ 449,066	\$ 362,526	\$ 347,325	\$ 351,294	\$ 328,171

### Other Data (at end of period):

Market capitalization (shares and units) <sup>(1)</sup>	\$ 1,745,674	\$ 1,358,725	\$ 1,145,183	\$ 939,581	\$ 673,431
Ratio of total debt to total capitalization <sup>(2)</sup>	40.7%	45.6%	48.6%	50.3%	54.4%
Number of properties, including joint venture ownership interest <sup>(3)</sup>	138	132	132	127	123
Number of apartment units, including joint venture ownership interest <sup>(3)</sup>	40,293	38,227	37,904	35,734	33,923

(1) Market capitalization includes all series of preferred shares (value based on \$25 per share liquidation preference) regardless of classification on balance sheet, common shares and partnership units (value based on common stock equivalency).

(2) Total capitalization is market capitalization plus total debt and market capitalization of preferred shares (value based on \$25 per share liquidation preference).

(3) Property and apartment unit totals have not been adjusted to exclude properties held for sale.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENTS

This and other sections of this Annual Report on Form 10-K contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. These statements include, but are not limited to, statements about anticipated market conditions, expected growth rates of revenues and expenses, planned asset dispositions, disposition pricing, planned acquisitions, developments and renovations, property financings, expected interest rates, joint venture activity and planned capital expenditures. Although Mid-America believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements

23

included in this report on Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by Mid-America or any other person that the objectives and plans of Mid-America will be achieved.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following discussion and analysis of financial condition and results of operations are based upon Mid-America's consolidated financial statements, and the notes thereto, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires Mid-America to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, Mid-America evaluates its estimates and assumptions based upon historical experience and various other factors and circumstances. Mid-America

believes that our estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates and assumptions.

Mid-America believes that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require the most subjective judgments, form the basis of accounting policies deemed to be most critical. These critical accounting policies include revenue recognition, capitalization of expenditures and depreciation of assets, impairment of long-lived assets, including goodwill, and fair value of derivative financial instruments.

### **Revenue recognition**

Mid-America leases multifamily residential apartments under operating leases primarily with terms of one year or less. Rent and other property income is recorded when due from residents and is recognized monthly as it is earned. Other property income consists primarily of utility rebillings, other expense reimbursements, and administrative, application and other fees charged to residents. Interest, management fees, and all other sources of income are recognized as earned.

Mid-America records all gains and losses on real estate in accordance with Statement No. 66 *Accounting for Sales of Real Estate*.

### **Capitalization of expenditures and depreciation of assets**

Mid-America carries real estate assets at depreciated cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets, which range from 8 to 40 years for land improvements and buildings, 5 years for furniture, fixtures, and equipment, and 3 to 5 years for computers and software, all of which are subjective determinations. Repairs and maintenance costs are expensed as incurred while significant improvements, renovations, and replacements are capitalized. The cost to complete any deferred repairs and maintenance at properties acquired by Mid-America in order to elevate the condition of the property to Mid-America's standards are capitalized as incurred.

### **Impairment of long-lived assets, including goodwill**

Mid-America accounts for long-lived assets in accordance with the provisions of Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or Statement 144, and evaluates its goodwill for impairment under Statement No. 142, *Goodwill and Other Intangible Assets*, or Statement 142. Mid-America evaluates goodwill for impairment on an annual basis in Mid-America's fiscal fourth quarter, or sooner if a goodwill impairment indicator is identified. Mid-America periodically evaluates long-lived assets, including investments in real estate and goodwill, for indicators that would suggest that the carrying amount of the assets may not be recoverable. The judgments regarding the existence of such indicators are based on factors such as operating performance, market conditions, and legal factors.

In accordance with Statement 144, long-lived assets, such as real estate assets, equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected

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to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, Mid-America determines the fair value of a reporting unit and compares it to its carrying amount. In the apartment industry, the primary method used for determining fair value is to divide annual operating cash flows by an appropriate capitalization rate. Mid-America determines the appropriate capitalization rate by reviewing the prevailing rates in a property's market or submarket. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with Statement No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

#### **Fair value of derivative financial instruments**

Mid-America utilizes certain derivative financial instruments, primarily interest rate swaps and caps, during the normal course of business to manage, or hedge, the interest rate risk associated with Mid-America's variable rate debt or as hedges in anticipation of future debt transactions to manage well-defined interest rate risk associated with the transaction. The valuation of the derivative financial instruments under Statement No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires Mid-America to make estimates and judgments that affect the fair value of the instruments.

In order for a derivative contract to be designated as a hedging instrument, the relationship between the hedging instrument and the hedged item must be highly effective. While Mid-America's calculation of hedge effectiveness contains some subjective determinations, the historical correlation of the cash flows of the hedging instruments and the underlying hedged item are measured by Mid-America before entering into the hedging relationship and have been found to be highly correlated.

Mid-America measures ineffectiveness using the change in the variable cash flows method at the inception of the hedge and for each reporting period thereafter, through the term of the hedging instruments. Any amounts determined to be ineffective are recorded in earnings. The change in fair value of the interest rate swaps and caps designated as cash flow hedges are recorded to accumulated other comprehensive income in the statement of shareholders' equity.

#### **OVERVIEW OF THE YEAR ENDED DECEMBER 31, 2006**

Mid-America's results for 2006 were positively influenced by both improved operating performance from communities held throughout both the current and prior period, or same store, and the positive impact from acquisitions in recent years. Strong economic growth and job formation enabled Mid-America to improve our same store occupancy and average rental rates from the prior year.

Mid-America has grown externally during the past three years by following its acquisition strategy to invest in large and mid-sized growing markets in the Sunbelt region of the United States. Mid-America acquired six properties in 2004 and three properties in 2005 for which it benefited from full years of revenues in 2006. Mid-America acquired an additional six properties during 2006.

Mid-America experienced an increase in interest expense in 2006 as our total debt outstanding and average borrowing costs both increased from prior year levels.

The following is a discussion of the consolidated financial condition and results of operations of Mid-America for the years ended December 31, 2006, 2005, and 2004. This discussion should be read in conjunction with all of the consolidated financial statements included in this Annual Report on Form 10-K.

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As of December 31, 2006, the total number of apartment units Mid-America owned or had an ownership interest in, including the properties owned by the joint venture was 40,293 in 138 communities compared to

38,227 apartment units in 132 communities owned at December 31, 2005, and 37,904 apartment units in 132 communities owned at December 31, 2004. For communities owned 100% by Mid-America, the average monthly rental per apartment unit, excluding units in lease-up, increased to \$726 at December 31, 2006 from \$695 at December 31, 2005, and \$680 at December 31, 2004. For these same units, overall occupancy at December 31, 2006, 2005, and 2004 was 94.2%, 94.6%, and 93.6%, respectively.

## RESULTS OF OPERATIONS

### Comparison of the Year Ended December 31, 2006, to the Year Ended December 31, 2005

Property revenues for the year ended December 31, 2006, increased by approximately \$29,982,000 from the year ended December 31, 2005, due to (i) a \$9,538,000 increase in property revenues from the six properties acquired in 2006, or the 2006 acquisitions, (ii) a \$5,312,000 increase in property revenues from the three properties acquired in 2005, or the 2005 acquisitions, and (iii) a \$15,132,000 increase in property revenues from the properties held throughout both periods. The increase in property revenues from properties held throughout both periods was generated primarily by Mid-America's same store portfolio and was driven by an average 3.1% increase in average rent per unit in 2006 over 2005.

Property operating expenses include costs for property personnel, building repairs and maintenance, real estate taxes and insurance, utilities, landscaping and other property related costs. Property operating expenses for the year ended December 31, 2006, increased by approximately \$10,653,000 from the year ended December 31, 2005, due primarily to increases of property operating expenses of (i) \$4,438,000 from the 2006 acquisitions, (ii) \$1,913,000 from the 2005 acquisitions, and (iii) \$4,302,000 from the properties held throughout both periods. The increase in property operating expenses from the properties held throughout both periods consisted primarily of Mid-America's same store portfolio and was driven by an increase in property insurance reflecting the increase in premiums effective July 1, 2006. The same store property operating expense increase also reflects increased utility rates as Mid-America experienced an increase in electricity, natural gas and water and sewer prices.

Depreciation expense increased by approximately \$4,975,000 primarily due to the increases of depreciation expense of (i) \$2,711,000 from the 2006 acquisitions, (ii) \$1,183,000 from the 2005 acquisitions, and (iii) \$4,101,000 from fixed asset additions at the communities held throughout both periods. These increases were partially offset by a decrease in depreciation expense of \$3,020,000 from the expiration of the amortization of fair market value of leases of six communities acquired by Mid-America in 2004.

Property management expenses increased by approximately \$1,206,000 from the year ended December 31, 2005, to the year ended December 31, 2006, partially due to increased incentive compensation as a result of improved property performance and increased franchise and excise taxes due to state tax law changes. General and administrative expenses increased by approximately \$1,532,000 over this same period also partially related to increased incentive compensation due to improved performance.

Interest expense increased approximately \$5,070,000 in 2006 from 2005 due primarily to the increase in the amount of debt outstanding from 2005 and the increase in Mid-America's twelve-month average borrowing cost from 5.2% for 2005, to 5.5% for 2006.

For the year ended December 31, 2005, Mid-America recorded total gains of approximately \$3,034,000 from the sale of two communities owned by a joint venture of Mid-America. The sales of these communities resulted in an additional incentive fee being paid to Mid-America of approximately \$1,723,000 in 2005. Mid-America had no dispositions in 2006.

For the year ended December 31, 2005, Mid-America recorded net gains on insurance and other settlement proceeds totaling approximately \$749,000 mainly related to insurance settlements from hurricane damage experienced at some of Mid-America's communities. For the year ended December 31, 2006, Mid-America recorded net gains on insurance and other settlement proceeds of approximately \$84,000.

Primarily as a result of the foregoing, net income increased by approximately \$1,201,000 in 2006 over 2005.

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## Comparison of the Year Ended December 31, 2005, to the Year Ended December 31, 2004

Property revenues for the year ended December 31, 2005, increased by approximately \$30,260,000 from the year ended December 31, 2004, due to (i) a \$12,871,000 increase in property revenues from the six properties acquired in 2004, or the 2004 acquisitions, (ii) a \$8,204,000 increase in property revenues from the 2005 acquisitions, and (iii) a \$9,185,000 increase in property revenues from the properties held throughout both periods.

Property operating expenses include costs for property personnel, building repairs and maintenance, real estate taxes and insurance, utilities, landscaping and other property related costs. Property operating expenses for the year ended December 31, 2005, increased by approximately \$11,314,000 from the year ended December 31, 2004, due primarily to increases of property operating expenses of (i) \$5,410,000 from the 2004 acquisitions, (ii) \$3,361,000 from the 2005 acquisitions, and (iii) \$2,543,000 from the properties held throughout both periods.

Depreciation expense increased by approximately \$6,403,000 primarily due to the increases of depreciation expense of (i) \$2,921,000 from the 2004 acquisitions, (ii) \$2,084,000 from the 2005 acquisitions, and (iii) \$4,596,000 from fixed asset additions at the communities held throughout both periods. These increases were partially offset by a decrease in depreciation expense of \$3,198,000 from the expiration of the amortization of fair market value of leases of 13 communities acquired by Mid-America in 2003.

Property management expenses increased by approximately \$1,514,000 from the year ended December 31, 2004, to the year ended December 31, 2005, partially due to increased personnel expenses and incentive compensation both related to property acquisitions. General and administrative expenses increased by approximately \$1,114,000 over this same period. Property management expenses and general and administrative expenses for 2005 were both impacted by a cumulative charge to amortize four years of a ten year senior management incentive plan which Mid-America previously expected would expense from 2007 through 2011.

Interest expense increased approximately \$7,759,000 in 2005 from 2004 due primarily to the increase in the amount of debt outstanding from 2004 and the increase in Mid-America's twelve-month average borrowing cost from 5.1% for 2004, to 5.2% for 2005.

For the year ended December 31, 2005, Mid-America recorded total gains of approximately \$3,034,000 from the sale of two communities owned by a joint venture of Mid-America. The sales of these communities resulted in an additional incentive fee being paid to Mid-America of approximately \$1,723,000 in 2005. For the year ended December 31, 2004, Mid-America recorded a total of approximately \$9,074,000 in gains from two community sales, of which approximately \$3,249,000 represented Mid-America's share of the gain from the sale of a community which was owned by a joint venture of Mid-America.

In 2005 and 2004, Mid-America refinanced the debt on several communities primarily to take advantage of the lower interest rate environment. In 2005, this resulted in a loss on debt extinguishment of approximately \$409,000 due to the write-off of deferred financing costs and prepayment penalties. In 2004, Mid-America recorded a gain of approximately \$1,095,000 related to the early extinguishment of debt.

For the years ended December 31, 2005, and 2004, Mid-America recorded net gains on insurance and other settlement proceeds totaling approximately \$749,000 mainly related to insurance settlements from hurricane damage experienced at some of Mid-America's communities and \$2,683,000 mainly related to insurance settlements from fires at some of Mid-America's communities, respectively.

Primarily as a result of the foregoing, net income decreased by approximately \$5,454,000 in 2005 over 2004.

### Funds From Operations

Funds from operations, or FFO, represents net income (computed in accordance with U.S. generally accepted accounting principles, or GAAP) excluding extraordinary items, minority interest in operating partnership income, gain on disposition of real estate assets, plus depreciation of real estate, and adjustments for joint ventures to reflect FFO on the same basis. This definition of FFO is in accordance with the NAREIT definition. Disposition of

real estate assets includes sales of discontinued operations as well as proceeds received from insurance and other settlements from property damage.

In response to the Securities and Exchange Commission's Staff Policy Statement relating to EITF Topic D-42 concerning the calculation of earnings per share for the redemption of preferred stock, Mid-America has included the amount charged to retire preferred stock in excess of carrying values in our FFO calculation.

Mid-America's policy is to expense the cost of interior painting, vinyl flooring, and blinds as incurred for stabilized properties. During the stabilization period for acquisition properties, these items are capitalized as part of the total repositioning program of newly acquired properties, and, thus are not deducted in calculating FFO.

FFO should not be considered as an alternative to net income or any other GAAP measurement of performance, as an indicator of operating performance or as an alternative to cash flow from operating, investing, and financing activities as a measure of liquidity. Mid-America believes that FFO is helpful to investors in understanding Mid-America's operating performance in that such calculation excludes depreciation expense on real estate assets. Mid-America believes that GAAP historical cost depreciation of real estate assets is generally not correlated with changes in the value of those assets, whose value does not diminish predictably over time, as historical cost depreciation implies. Mid-America's calculation of FFO may differ from the methodology for calculating FFO utilized by other REITs and, accordingly, may not be comparable to such other REITs.

The following table is a reconciliation of FFO to net income for the years ended December 31, 2006, 2005, and 2004 (dollars and shares in thousands):

	<b>Years ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Net income	\$ 20,945	\$ 19,744	\$ 25,198
Depreciation of real estate assets	78,048	73,067	66,659
Net gain on insurance and other settlement proceeds	(84)	(749)	(2,683)
Gain on disposition within unconsolidated entities	□	(3,034)	(3,249)
Net (gain) loss on insurance and other settlement proceeds of discontinued operations	□	25	(526)
Depreciation of real estate assets of discontinued operations	160	637	1,324
Gain on sale of discontinued operations	□	□	(5,825)
Depreciation of real estate assets of unconsolidated entities	500	482	1,688
Preferred dividend distribution	(13,962)	(14,329)	(14,825)
Minority interest in operating partnership income	1,590	1,571	2,264
Funds from operations	\$ 87,197	\$ 77,414	\$ 70,025
Weighted average shares and units:			
Basic	25,979	24,025	22,981
Diluted	26,204	24,227	23,316

FFO increases for both 2006 over 2005 and 2005 over 2004 were principally the result of improved community operations from Mid-America's same store portfolio and the addition of communities from the 2004 acquisitions, 2005 acquisitions and 2006 acquisitions as previously reviewed in the net income discussion above.

## Trends

In 2006, community performance showed the benefit of improving market conditions, which was strong throughout most of Mid-America's markets. Areas that had been weak for several years, especially Atlanta, Dallas, and Austin, showed improved demand.

Mid-America believes that the primary driver of demand by apartment residents is job formation, and this continued to show solid momentum in most of Mid-America's larger metro areas. Some of the smaller and mid-size markets in which Mid-America operates, such as Jackson, MS, Jacksonville, FL, and Columbus, GA remained reasonably strong during the market downturn that preceded this period, and continued to show solid performance. At the same time, Mid-America has noticed that in some of our markets, supply pressures have been surprisingly muted, and we believe that several factors are at work. In some markets, especially in Florida, some apartment communities

have been take