

MID AMERICA APARTMENT COMMUNITIES INC  
Form 10-Q  
October 31, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014  
or

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

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

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

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

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

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

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

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

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

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to submit and post such files).

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

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

Mid-America Apartment Communities, Inc.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 (Do not check if a smaller reporting company)

Mid-America Apartments, L.P.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 (Do not check if a smaller reporting company)

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

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

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

Class	Number of Shares Outstanding at October 27, 2014
Common Stock, \$0.01 par value	75,254,249

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

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## Explanatory Note

This Report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2014 of Mid-America Apartment Communities, Inc., a Tennessee corporation and Mid-America Apartments, L.P., a Tennessee limited partnership, of which Mid-America Apartment Communities, Inc. is the sole general partner. Mid-America Apartment Communities, Inc. and its 94.7% owned subsidiary, Mid-America Apartments, L.P., are both required to file periodic reports under the Securities Exchange Act of 1934, as amended.

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

As of September 30, 2014, MAA owned 75,242,266 units (or approximately 94.7%) of the limited partnership interests of the Operating Partnership. MAA conducts substantially all of its business and holds substantially all of its assets through the Operating Partnership, and by virtue of its ownership of the OP Units and being the Operating Partnership's sole general partner, MAA has the ability to control all of the day-to-day operations of the Operating Partnership.

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

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

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

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

shareholders' equity may include shares of preferred stock, shares of common stock, additional paid-in capital, cumulative earnings, cumulative distributions, noncontrolling interest, preferred units, treasury shares, accumulated other comprehensive income and redeemable common units. The Operating Partnership's capital may include common capital and preferred capital of the general partner (MAA), limited partners' preferred capital, limited partners' noncontrolling interest, accumulated other comprehensive income and redeemable common units. Redeemable common units represent the number of outstanding OP Units as of the date of the applicable balance sheet, valued for conversion at the greater of the closing market price of MAA's common stock or the aggregate value of the individual partners' capital balances. Holders of common units in the Operating Partnership (other than MAA and its entity affiliates) may require the Operating Partnership to redeem their common units, in which case the Operating Partnership may, at its option, pay the redemption price either in cash (in an amount per common unit equal, in general, to the average closing price of MAA's common stock on the New York Stock Exchange, or "NYSE", over a specified period of time prior to the redemption date) or by delivering one share of our common stock (subject to adjustment under specified circumstances) for each common unit so redeemed.

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

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

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

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Mid-America Apartment Communities, Inc.  
 Condensed Consolidated Balance Sheets  
 September 30, 2014 and December 31, 2013  
 (Unaudited)  
 (Dollars in thousands, except share data)

	September 30, 2014	December 31, 2013
Assets:		
Real estate assets:		
Land	\$872,786	\$871,316
Buildings and improvements	6,595,550	6,366,701
Furniture, fixtures and equipment	208,653	199,573
Development and capital improvements in progress	59,161	166,048
	7,736,150	7,603,638
Less accumulated depreciation	(1,288,374)	(1,124,207)
	6,447,776	6,479,431
Undeveloped land	58,700	63,850
Corporate properties, net	8,263	7,523
Investments in real estate joint ventures	1,802	5,499
Real estate assets, net	6,516,541	6,556,303
Cash and cash equivalents	87,766	89,333
Restricted cash	59,786	44,361
Deferred financing costs, net	17,870	17,424
Other assets	62,996	91,637
Goodwill	2,321	4,106
Assets held for sale	35,734	38,761
Total assets	\$6,783,014	\$6,841,925
Liabilities and Shareholders' Equity:		
Liabilities:		
Secured notes payable	\$1,554,592	\$1,790,935
Unsecured notes payable	1,875,422	1,681,783
Accounts payable	10,089	15,067
Fair market value of interest rate swaps	13,132	20,015
Accrued expenses and other liabilities	238,849	206,268
Security deposits	9,970	9,270
Total liabilities	3,702,054	3,723,338
Redeemable stock	5,028	5,050
Shareholders' equity:		
Common stock, \$0.01 par value per share, 100,000,000 shares authorized; 75,242,266 and 74,830,726 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively (1)	752	747
Additional paid-in capital	3,616,847	3,599,549
Accumulated distributions in excess of net income	(705,022)	(653,593)
Accumulated other comprehensive income	396	108



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Total MAA shareholders' equity	2,912,973	2,946,811
Noncontrolling interest	162,959	166,726
Total equity	3,075,932	3,113,537
Total liabilities and equity	\$6,783,014	\$6,841,925

Number of shares issued and outstanding represent total shares of common stock regardless of classification on the consolidated balance sheet. The number of shares classified as redeemable stock on the consolidated balance sheet for September 30, 2014 and December 31, 2013 are 85,164 and 83,139, respectively.

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc.  
 Condensed Consolidated Statements of Operations  
 Three and nine months ended September 30, 2014 and 2013  
 (Unaudited)  
 (Dollars in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Operating revenues:				
Rental revenues	\$225,789	\$124,612	\$669,387	\$363,445
Other property revenues	22,981	10,648	67,266	31,217
Total property revenues	248,770	135,260	736,653	394,662
Management fee income	11	146	169	465
Total operating revenues	248,781	135,406	736,822	395,127
Property operating expenses:				
Personnel	26,355	14,930	76,447	43,332
Building repairs and maintenance	8,703	4,554	22,286	11,557
Real estate taxes and insurance	30,918	16,741	92,735	48,187
Utilities	14,874	7,506	41,534	20,900
Landscaping	4,002	2,894	15,391	8,595
Other operating	15,781	9,068	47,225	26,464
Depreciation and amortization	70,222	32,766	229,866	97,183
Total property operating expenses	170,855	88,459	525,484	256,218
Acquisition expense	13	—	971	499
Property management expenses	7,429	4,970	24,019	15,301
General and administrative expenses	6,511	3,976	16,065	10,604
Merger related expenses	331	5,561	3,202	11,298
Integration related expenses	147	35	7,140	35
Income from continuing operations before non-operating items	63,495	32,405	159,941	101,172
Interest and other non-property income	85	16	1,166	86
Interest expense	(28,251 )	(14,923 )	(89,090 )	(45,657 )
Loss on debt extinguishment/modification	(2,586 )	(218 )	(2,586 )	(387 )
Amortization of deferred financing costs	(1,000 )	(820 )	(3,485 )	(2,427 )
Net casualty (loss) gain after insurance and other settlement proceeds	(126 )	—	(431 )	455
Gain on sale of depreciable real estate assets excluded from discontinued operations	36,032	—	42,254	—
Gain on sale of non-depreciable real estate assets	—	—	535	—
Income before income tax expense	67,649	16,460	108,304	53,242
Income tax expense	(442 )	(223 )	(1,235 )	(669 )
Income from continuing operations before joint venture activity	67,207	16,237	107,069	52,573
Gain from real estate joint ventures	3,124	60	6,019	161
Income from continuing operations	70,331	16,297	113,088	52,734
Discontinued operations:				
Income from discontinued operations before (loss) gain on sale	488	972	1,353	4,451
Net casualty gain (loss) after insurance and other settlement proceeds on discontinued operations	3	(1 )	—	(5 )
(Loss) gain on sale of discontinued operations	(103 )	28,788	5,378	71,909
Consolidated net income	70,719	46,056	119,819	129,089
Net income attributable to noncontrolling interests	3,743	1,772	6,364	4,536

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Net income available for MAA common shareholders	\$66,976	\$44,284	\$113,455	\$124,553
Earnings per common share - basic:				
Income from continuing operations available for common shareholders	\$0.89	\$0.37	\$1.43	\$1.19
Discontinued property operations	—	0.67	0.08	1.73
Net income available for common shareholders	\$0.89	\$1.04	\$1.51	\$2.92
Earnings per common share - diluted:				
Income from continuing operations available for common shareholders	\$0.89	\$0.37	\$1.43	\$1.19
Discontinued property operations	—	0.67	0.08	1.72
Net income available for common shareholders	\$0.89	\$1.04	\$1.51	\$2.91
Dividends declared per common share	\$0.7300	\$0.6950	\$2.1900	\$2.0850
See accompanying notes to condensed consolidated financial statements.				

Mid-America Apartment Communities, Inc.  
 Condensed Consolidated Statements of Comprehensive Income  
 Three and nine months ended September 30, 2014 and 2013  
 (Unaudited)  
 (Dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Consolidated net income	\$70,719	\$46,056	\$119,819	\$129,089
Other comprehensive income:				
Unrealized (losses) gains from the effective portion of derivative instruments	(696 )	(1,826 )	(9,096 )	10,096
Reclassification adjustment for net losses included in net income for the effective portion of derivative instruments	2,589	3,621	9,399	12,098
Total comprehensive income	72,612	47,851	120,122	151,283
Less: comprehensive income attributable to noncontrolling interests	(3,845 )	(1,830 )	(6,379 )	(5,275 )
Comprehensive income attributable to MAA	\$68,767	\$46,021	\$113,743	\$146,008

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc.  
 Condensed Consolidated Statements of Cash Flows  
 Nine months ended September 30, 2014 and 2013  
 (Unaudited)  
 (Dollars in thousands)

	Nine months ended September 30,	
	2014	2013
Cash flows from operating activities:		
Consolidated net income	\$119,819	\$129,089
Adjustments to reconcile net income to net cash provided by operating activities:		
Retail revenue accretion	(17	) (29
Depreciation and amortization	233,312	102,158
Stock compensation expense	3,180	1,729
Redeemable stock issued	690	535
Amortization of debt premium	(20,121	) (948
Gain from investments in real estate joint ventures	(3,159	) (161
Loss on debt extinguishment	2,586	387
Derivative interest (credit) expense	(2,543	) 827
Settlement of forward swaps	(3,625	) —
Gain on sale of non-depreciable real estate assets	(535	) —
Gain on sale of depreciable real estate assets excluded from discontinued operations	(42,254	) —
Gain on sale of discontinued operations	(5,378	) (71,909
Net casualty loss (gain) and other settlement proceeds	431	(450
Changes in assets and liabilities:		
Restricted cash	15,062	(391
Other assets	(5,016	) (7,611
Accounts payable	(1,665	) 2,377
Accrued expenses and other	31,630	12,951
Security deposits	688	223
Net cash provided by operating activities	323,085	168,777
Cash flows from investing activities:		
Purchases of real estate and other assets	(180,272	) (89,866
Normal capital improvements	(71,140	) (35,412
Construction capital and other improvements	(4,456	) (3,873
Renovations to existing real estate assets	(11,950	) (8,616
Development	(40,752	) (26,129
Distributions from real estate joint ventures	15,964	8,311
Contributions to real estate joint ventures	—	(183
Proceeds from disposition of real estate assets	241,691	118,783
Funding of escrow for future acquisitions	(30,487	) (57,380
Net cash used in investing activities	(81,402	) (94,365
Cash flows from financing activities:		
Net change in credit lines	(216,184	) 177,000
Proceeds from notes payable	396,532	—
Principal payments on notes payable	(258,105	) (8,695
Payment of deferred financing costs	(4,156	) (2,655
Repurchase of common stock	(456	) (682
Proceeds from issuances of common shares	728	25,038

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Exercise of stock options	11,916	—
Distributions to noncontrolling interests	(9,227 )	(3,574 )
Dividends paid on common shares	(164,298 )	(88,814 )
Net cash (used in) provided by financing activities	(243,250 )	97,618
Net (decrease) increase in cash and cash equivalents	(1,567 )	172,030
Cash and cash equivalents, beginning of period	89,333	9,075
Cash and cash equivalents, end of period	\$87,766	\$181,105
Supplemental disclosure of cash flow information:		
Interest paid	\$101,252	\$48,534
Income taxes paid	\$1,596	\$803
Supplemental disclosure of noncash investing and financing activities:		
Conversion of units to shares of common stock	\$992	\$550
Accrued construction in progress	\$6,539	\$4,190
Interest capitalized	\$1,253	\$1,118
Marked-to-market adjustment on derivative instruments	\$6,471	\$21,367
Fair value adjustment on debt assumed	\$2,720	