MID AMERICA APARTMENT COMMUNITIES INC
Form 10-Q
November 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

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 Charter)

TENNESSEE	62-1543819
(State of Incorporation)	(I.R.S. Employer Identification Number)

6584 POPLAR AVENUE, SUITE 300
MEMPHIS, TENNESSEE 38138
(Address of principal executive offices)

(901) 682-6600
Registrant's telephone number, including area code

(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.

[X] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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 29, 2001
Common Stock, $.01 par value	17,435,924

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Mid-America Apartment Communities, Inc.
Consolidated Balance Sheets
September 30, 2001 (Unaudited) and December 31, 2000

(Dollars in thousands)

	2001	2000
Assets:		
Real estate assets:		
Land	$ 124,644	$ 124,867
Buildings and improvements	1,236,277	1,231,628
Furniture, fixtures and equipment	30,807	30,127
Construction in progress	35,280	28,592
	1,427,008	1,415,214

Less accumulated depreciation	(217,543)	(183,769)
	1,209,465	1,231,445
Land held for future development	1,366	1,366
Commercial properties, net	4,179	4,034
Investment in and advances to real estate joint venture	7,142	7,630
Real estate assets, net	1,222,152	1,244,475
Cash and cash equivalents	10,646	16,095
Restricted cash	14,401	17,472
Deferred financing costs, net	10,444	9,700
Other assets	15,878	16,029
Total assets	$ 1,273,521	$ 1,303,771
Liabilities and Shareholders' Equity:		
Liabilities:		
Notes payable	$ 775,467	$ 781,089
Accounts payable	1,997	1,740
Accrued expenses and other liabilities	37,283	26,589
Security deposits	4,599	4,611
Deferred gain on disposition of properties	4,186	4,366
Total liabilities and deferred gain	823,532	818,395
Minority interest	47,926	51,383
Shareholders' equity:		
Preferred stock, $.01 par value, 20,000,000 shares authorized, $173,470,750 or $25 per share liquidation preference:		
2,000,000 shares at 9.5% Series A Cumulative	20	20
1,938,830 shares at 8.875% Series B Cumulative	19	19
2,000,000 shares at 9.375% Series C Cumulative	20	20
1,000,000 shares at 9.5% Series E Cumulative	10	10
Common stock, $.01 par value (authorized 50,000,000 shares; issued 17,422,769 and 17,506,968 shares at September 30, 2001 and December 31, 2000, respectively)	174	175
Additional paid-in capital	549,562	551,809
Other	(927)	(1,171)
Accumulated distributions in excess of net income	(136,986)	(116,889)
Accumulated other comprehensive income	(9,829)	-
Total shareholders' equity	402,063	433,993
Total liabilities and shareholders' equity	$ 1,273,521	$ 1,303,771

See accompanying notes to consolidated financial statements.

Mid-America Apartment Communities, Inc.
Consolidated Statements of Operations
Three and nine months ended September 30, 2001 and 2000

(Dollars in thousands, except per share data)

(Unaudited)

	Three months ended September 30,	
	2001	2000
Revenues:		
Rental revenues	$ 56,046	$ 55,495
Other property revenues	733	975
Total property revenues	56,779	56,470
Interest and other income	271	309
Management fee income, net	190	187
Equity in loss of real estate joint venture	(63)	(29)
Total revenues	57,177	56,937
Expenses:		
Property operating expenses:		
Personnel	6,275	6,319
Building repairs and maintenance	2,720	2,780
Real estate taxes and insurance	6,647	6,387
Utilities	1,944	2,108
Landscaping	1,576	1,531
Other operating	2,564	2,904
Depreciation and amortization	12,916	12,737
	34,642	34,766
Property management expenses	2,241	2,402
General and administrative expenses	1,514	1,298
Interest expense	13,024	13,006
Amortization of deferred financing costs	530	620
Total expenses	51,951	52,092
Income before gain on dispositions, minority interest in operating partnership income and extraordinary items	5,226	4,845
Gain on dispositions, net	9,900	1,119
Income before minority interest in operating partnership income and extraordinary items	15,126	5,964
Minority interest in operating partnership income	1,853	337
Income before extraordinary items	13,273	5,627
Extraordinary items - loss on debt extinguishment, net of minority interest	(183)	-
Net income	13,090	5,627
Dividends on preferred shares	4,028	4,028
Net income available for common shareholders	$ 9,062	$ 1,599

Net income available per common share:		
Basic (in thousands):		
Average common shares outstanding	17,406	17,483
Basic earnings per share:		
Net income available per common share before extraordinary item	$ 0.53	$ 0.09
Extraordinary item	(0.01)	-
Net income available per common share	$ 0.52	$ 0.09
Diluted (in thousands):		
Average common shares outstanding	17,406	17,483
Effect of dilutive stock options	163	85
Average dilutive common shares outstanding	17,569	17,568
Diluted earnings per share:		
Net income available per common share before extraordinary item	$ 0.53	$ 0.09
Extraordinary item	(0.01)	-
Net income available per common share	$ 0.52	$ 0.09

See accompanying notes to consolidated financial statements.

Mid-America Apartment Communities, Inc.
Consolidated Statements of Cash Flows
Nine months ended September 30, 2001 and 2000
(Dollars in thousands)

	2001
Cash flows from operating activities:	
Net income	$ 22
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	40
Amortization of unearned stock compensation	
Equity in loss of real estate joint venture	
Minority interest in operating partnership income	2
Extraordinary items	
Gain on dispositions, net	(10
Changes in assets and liabilities:	
Restricted cash	3
Other assets	
Accounts payable	
Accrued expenses and other	10
Security deposits	
Net cash provided by operating activities	71
Cash flows from investing activities:	
Purchases of real estate assets	
Improvements to properties	(14

Construction of units in progress and future development	(15
Proceeds from disposition of real estate assets	12
Distributions from real estate joint venture	
Net cash used in investing activities	(17
Cash flows from financing activities:	
Net change in credit lines	(5
Proceeds from notes payable	88
Principal payments on notes payable	(89
Payment of deferred financing costs	(2
Repurchase of common stock	(3
Proceeds from issuances of common shares and units	
Distributions to unitholders	(5
Dividends paid on common shares	(30
Dividends paid on preferred shares	(12
Net cash used in financing activities	(59
Net increase (decrease) in cash and cash equivalents	(5
Cash and cash equivalents, beginning of period	16
Cash and cash equivalents, end of period	$ 10
Supplemental disclosure of cash flow information:	
Interest paid	$ 40
Supplemental disclosure of noncash investing and financing activities:	
Conversion of units for common shares	$
Issuance of advances in exchange for common shares	$
Interest capitalized	$ 1
Assumption of debt related to property acquisition	$

See accompanying notes to consolidated financial statements.

MID-AMERICA APARTMENT COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001 and 2000 (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the accounting policies in effect as of December 31, 2000, as set forth in the annual consolidated financial statements of Mid-America Apartment Communities, Inc. ("MAAC" or the "Company"), as of such date. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included and all such adjustments were of a normal recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and nine month periods ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year.

Certain prior year amounts have been reclassified to conform with the 2001 presentation. The reclassifications had no effect on net income available for common shareholders.

2. Real Estate Transactions

Dispositions

On July 2, 2001, the Company sold the 320-unit Canyon Creek Apartments, located in St. Louis, Missouri, for approximately $15.6 million. On August 22, 2001, the Company sold the 252-unit Advantages Apartments, located in Jackson, MS, for $6.9 million. The proceeds from both dispositions were used to pay down the Company's outstanding lines of credit.

3. Share and Unit Information

At September 30, 2001, 17,422,769 common shares and 2,931,612 operating partnership units were outstanding, a total of 20,354,381 shares and units. Additionally, MAAC had outstanding options for 1,401,769 shares of common stock at September 30, 2001.

4. Segment Information

At September 30, 2001, the Company owned or had ownership interest in, and operated 122 apartment communities in 12 different states from which it derives all significant sources of earnings and operating cash flows. The Company's operational structure is organized on a decentralized basis, with individual property managers having overall responsibility and authority regarding the operations of their respective properties. Each property manager individually monitors local and area trends in rental rates, occupancy percentages, and operating costs. Property managers are given the on-site responsibility and discretion to react to such trends in the best interest of the Company. Management evaluates the performance of each individual property based on its contribution of revenues and net operating income ("NOI"), which is composed of property revenues less all operating costs including insurance and real estate taxes. The Company's reportable segments are its individual properties because each is managed separately and requires different operating strategy and expertise based on the geographic location, community structure and quality, population mix, and numerous other factors unique to each community.

The revenues, profits and assets for the aggregated communities are summarized as follows for the three and nine months ended as of September 30 (Dollars in thousands):

	Three months ended September 30,	
	2001	2000
Multifamily rental revenues	$ 60,760	$ 60,174
Other multifamily revenues	772	1,022
Segment revenues	61,532	61,196
Reconciling items to consolidated revenues:		
Joint venture revenues	(4,753)	(4,726)
Interest income and other revenues	271	309
Management fee income, net	190	187
Equity in loss of real estate joint venture	(63)	(29)
Total revenues	$ 57,177	$ 56,937
Multifamily net operating income	$ 37,594	$ 37,047
Reconciling items to net income available for common shareholders:		

Joint venture net operating income	(2,541)	(2,606)
Management fee income, net	190	187
Equity in loss of real estate joint venture	(63)	(29)
Interest and other income	271	309
Interest expense	(13,024)	(13,006)
Property management expenses	(2,241)	(2,402)
General and administrative expenses	(1,514)	(1,298)
Depreciation and amortization	(12,916)	(12,737)
Amortization of deferred financing costs	(530)	(620)
Gain on dispositions, net	9,900	1,119
Extraordinary items, net	(183)	-
Minority interest in operating partnership	(1,853)	(337)
Dividends on preferred shares	(4,028)	(4,028)
Net income available for common shareholders	$ 9,062	$ 1,599

	September 30, 2001	Septem
Assets:		
Multifamily real estate assets	$ 1,530,618	
Accumulated depreciation - multifamily assets	(226,241)	
Segment assets	1,304,377	
Reconciling items to total assets:		
Joint venture multifamily real estate assets, net	(94,912)	
Land held for future development	1,366	
Commercial properties, net	4,179	
Investment in and advances to real estate joint venture	7,142	
Cash and restricted cash	25,047	
Deferred financing costs	10,444	
Other assets	15,878	
Total assets	$ 1,273,521	

5. Derivative Financial Instruments

In the normal course of business, the Company uses certain derivative financial instruments to manage, or hedge, the interest rate risk associated with the Company'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 Company does not use derivative financial instruments for speculative or trading purposes. Further, the Company has a policy of entering into contracts with major financial institutions based upon their credit rating and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designated to hedge, the Company has not sustained any material loss from those instruments nor does it anticipate any material adverse effect on its net income or financial position in the future from the use of derivatives.

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative

Instruments and Certain Hedging Activities." SFAS 133, as amended, established accounting and reporting standards for derivative instruments. Specifically, SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either shareholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

As of January 1, 2001, the adoption of the new standard resulted in derivative instruments reported on the balance sheet as liabilities of $2,184,000 and an increase of $2,184,000 to "Accumulated Other Comprehensive Income." The adoption did not impact the Company's results of operations or cash flows for any period presented in the accompanying financial statements.

The Company requires that hedging derivative instruments are effective in reducing the interest rate risk exposure that they are designated to hedge. This effectiveness is essential for qualifying for hedge accounting. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives that are designated as fair-value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives used are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that a derivative is not highly effective as a hedge or if there is a discontinuation of the hedging relationship, the Company discontinues hedge accounting prospectively.

On September 30, 2001, the derivative instruments were reported at their fair value as other liabilities of $9,829,000. The offsetting adjustments were represented as losses in accumulated other comprehensive income.

The Company utilizes interest rate swaps as cash flow hedges to hedge the variability in future cash flows of debt transactions. The interest rate swaps convert the variable payments on debt obligations to fixed payments. The unrealized gains/losses in the fair value of these interest rate swaps are reported on the balance sheet with a corresponding adjustment to accumulated other comprehensive income, with any ineffective portion of the hedging transaction reclassified to earnings. During the three and nine month periods ended September 30, 2001, the ineffective portion of the hedging transaction was not significant. Within the next twelve months, the Company expects to reclassify to earnings an estimated $100,000 of the current balance held in accumulated other comprehensive income.

PART I. Financial Information

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following is a discussion of the consolidated financial condition and results of operations of the Company for the three and nine months ended September 30, 2001 and 2000. This discussion should be read in conjunction with the financial statements appearing elsewhere in this report. These financial statements include all adjustments, which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods presented, and all such adjustments are of a normal recurring nature.

The total number of apartment units the Company owned or had an ownership interest in, including the 10 properties containing 2,793 apartment units owned by its 33.3% unconsolidated joint venture, at September 30, 2001 was 33,291 in 122 communities compared to 33,727 units in 127 communities owned at September 30, 2000. The average monthly rental per apartment unit for the Company's non-development, owned units increased to $657 at September 30, 2001 from $637 at September 30, 2000. Occupancy for these same units at September 30, 2001 and 2000 was 94.4% and 95.4%, respectively.

FUNDS FROM OPERATIONS

Funds from operations ("FFO") represents net income (computed in accordance with generally accepted accounting principles "GAAP") excluding extraordinary items, minority interest in operating partnership income (loss), gain or loss on disposition of depreciable real estate assets, and certain non-cash and other items, (primarily real estate depreciation and amortization), less preferred stock dividends. Adjustments for the unconsolidated joint venture are made to include the Company's portion of FFO in the calculation. The Company computes FFO in accordance with NAREIT's definition which reflects the recommendations of NAREIT's Best Financial Practices Council that FFO should include all operating results, both recurring and non-recurring, except those defined as "extraordinary" under GAAP. The Company's FFO calculation reflects this definition for all periods presented. The Company'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 because they are part of the general post acquisition redevelopment upgrade of a property, 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. The Company believes that FFO is helpful in understanding the Company's results of operations in that such calculation reflects the Company's ability to support interest payments and general operating expenses before the impact of certain activities such as changes in other assets and accounts payable. The Company's calculation of FFO may differ from the methodology for calculating FFO utilized by other real estate investment trusts ("REITs") and, accordingly, may not be comparable to such other REITs. Depreciation expense includes approximately $481,000 and $358,000 for the nine months ended September 30, 2001 and 2000, respectively, which relates to computer software, office furniture and fixtures and other assets found in other industries and which is required to be recognized, for purposes of computing funds from operations.

Funds from operations for the three and nine months ended September 30, 2001 and 2000 is calculated as follows (in thousands):

	Three months ended September 30,		Nine ended Sep
	2001	2000	2001
Net income available for common shareholders	$ 9,062	$ 1,599	$ 10,468
Depreciation and amortization - real property	12,760	12,570	38,526
Adjustment for joint venture depreciation	316	303	943
Minority interest in operating partnership	1,853	337	2,104
Gain on dispositions of real property	(9,900)	(1,119)	(9,835

Extraordinary items	183	-	626
Funds from operations	$ 14,274	$ 13,690	$ 42,832
Weighted average shares and units:			
Basic	20,340	20,435	20,362
Diluted	20,503	20,520	20,455

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 2001 TO THE THREE MONTHS ENDED SEPTEMBER 30, 2000

Property revenues for 2001 increased by approximately $309,000 due primarily to the increase of $1,688,000 from the communities in development that were in lease-up ("Development Communities"). This increase was partially offset by decreases in property revenues of (i) $594,000 from the sale of the Whispering Oaks, 2000 Wynnton, Riverwind and Hollybrook apartments in the third and fourth quarters of 2000 ("Third and Fourth Quarter 2000 Dispositions"), (ii) $689,000 from the sale of the Canyon Creek and Advantages apartments in 2001 ("2001 Dispositions"), and (iii) $96,000 from the communities 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 2001 decreased by approximately $303,000 due primarily to decreases of (i) $271,000 from the Third and Fourth Quarter 2000 Dispositions, (ii) $146,000 from the 2001 Dispositions, and (iii) $572,000 from the communities owned throughout both periods. These decreases were partially offset by an increase in operating expense of $686,000 due to Development Communities.

During the current year, the Company began separating total overhead costs into two captions on the accompanying financial statements, property management expenses and general and administrative expenses, to more accurately present costs directly attributable to property operations and general administration. The changes in presentation have no impact on the results of operations or cash flows of the Company, and have been reflected in all periods presented. Management believes the change was necessary to make the Company's presentation more comparable with its peer companies.

Property management expenses decreased approximately $161,000 over the same period last year mainly related to decreases in certain health benefits and the summer intern program. General and administrative expenses increased approximately $216,000 over the third quarter last year mainly related to increased transportation costs.

Depreciation and amortization expense increased by approximately $179,000 primarily due to the increase of $472,000 from the Development Communities. This increase was partially offset by the depreciation and amortization expense decreases of (i) $130,000 from the Third and Fourth Quarter 2000 Dispositions, (ii) $141,000 from the 2001 Dispositions, and (iii) $22,000 from the communities held throughout both periods.

Interest expense over the three months ended September 30, 2000, remained relatively flat as the lower interest rates obtained from the refinancings of fixed rate debt and the drop in variable rates were offset by the reduction of interest capitalized as the development pipeline nears completion.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2001 TO THE NINE MONTHS ENDED

SEPTEMBER 30, 2000

Property revenues for 2001 increased by approximately $3,960,000 due primarily to increases of (i) $1,169,000 from the 2000 Acquisitions, (ii) $5,921,000 from the Development Communities and (iii) $1,659,000 from the communities owned throughout both periods. These increases were partially offset by decreases in property revenues of (i) $4,218,000 from the Third and Fourth Quarter 2000 Dispositions along with the sales of the Winchester Square, McKellar Woods, Clearbrook Village, MacArthur Ridge and Pine Trails apartments in the first and second quarters of 2000 ("2000 Dispositions"), and (ii) $571,000 from the 2001 Dispositions.

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 2001 increased approximately $1,096,000 due primarily to increases of (i) $419,000 from the 2000 Acquisitions, (ii) $2,081,000 from the Development Communities and (iii) $579,000 from communities owned throughout both periods. These increases were partially offset by the decreases in operating expenses of (i) $1,865,000 due to 2000 Dispositions, and (ii) $118,000 due to 2001 Dispositions.

During the current year, the Company began separating total overhead costs into two captions on the accompanying financial statements, property management expenses and general and administrative expenses, to more accurately present costs directly attributable to property operations and general administration. The changes in presentation have no impact on the results of operations or cash flows of the Company, and have been reflected in all periods presented. Management believes the change was necessary to make the Company's presentation more comparable with its peer companies.

During the nine months ended September 30, 2001, property management expense increased approximately $312,000 over the same period during 2000. This increase was mainly related to increased franchise taxes. General and administrative costs increased approximately $412,000 over the first three quarters of 2000 primarily related to increased transportation costs. Management remains focused on maintaining the efficiency of the support functions, and based on current plans expects property management and general and administrative costs to approximate inflationary level increases over the next year.

Depreciation and amortization expense increased by approximately $153,000 primarily due to increases of (i) $267,000 from the 2000 Acquisitions, (ii) $1,006,000 from the Development Communities, and (iii) $83,000 from the communities held throughout both periods. These increases were partially offset by the depreciation and amortization expense decreases of (i) $1,062,000 from the 2000 Dispositions, and (ii) $141,000 form the 2001 Dispositions.

Interest expense increased $2,782,000 over the nine months ended September 30, 2000 primarily related to additional funding required for new development.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities for the nine months ended September 30, 2001 increased $15,538,000 compared to the same period a year earlier mainly due to changes in operating assets and liabilities related to the release of certain cash escrow amounts due to debt refinancings and the timing of cash payments for certain prepaid items.

During the first nine months of 2001 the Company invested $15,440,000 in development properties, reduced from $43,461,000 from the same period in 2000. The Company is nearing the completion of the approximately $300,000,000 development program begun in 1997, and anticipates that approximately another $6,562,000 funding will be required during 2001 and the first quarter of 2002 to

complete the entire program.

The following table summarizes the Company's remaining communities in various stages of lease-up and construction, as of September 30, 2001 (Dollars in thousands):

	Location	Total Units	Current Estimated Cost	Cost to Date	C
Completed Communities					
In Lease-up:					
Grand Reserve Lexington	Lexington, KY	370	$ 33,176	$ 31,529	
Reserve at Dexter Lake Phase II	Memphis, TN	244	16,898	16,035	
Grande View Nashville	Nashville, TN	433	37,746	36,537	
		1,047	$ 87,820	$ 84,101	
Under Construction:					
Reserve at Dexter Lake Phase III	Memphis, TN	244	$ 16,869	$ 14,026	
Total Units in Lease-up/Development		1,291	$104,689	$ 98,127	

Total capital expenditures for development of communities and capital improvements for the nine months ended September 30, 2001 are summarized below (Dollars in thousands):

New construction	$ 15,440
Recurring capital expenditures at stabilized properties	10,160
Revenue enhancing projects at stabilized properties	3,116
Corporate additions and improvements	790
	$ 29,506

Net cash used in financing activities increased $28,108,000 during the first nine months of 2001 as compared to the same period during 2000. During the first nine months of 2001, the Company paid down $5,433,000 of its credit facilities, $43,879,000 less than during the same period a year earlier. The Company had $89,297,000 of principal payments on notes payable mostly related to payoffs associated with debt refinancings during the first nine months of 2001. Also during the first nine months ended September 30, 2001, the Company distributed a total of $47,877,000 to operating partnership unit holders, common shareholders and preferred shareholders.

In July 2001, using the Company's Fannie Mae credit facility, the Company refinanced $14.5 million of individual mortgages and a $39.6 million loan with Prudential. The Company also fixed the interest rate on an additional $25 million of its Fannie Mae credit facility for seven years at a rate of 6.3%. As a result of these refinancings, the Company was also able to reduce the required cash escrows, previously included in restricted cash in the accompanying financial statements.

Borrowings under the FNMA Facility totaled $269,441,000 at September 30, 2001, consisting of $90,000,000 under the fixed rate portion at a combined rate of 7.5% and the remaining $179,441,000 under the variable rate portion of the facility. The proceeds from borrowings under the FNMA Facility were primarily used to pay down other credit lines and fund development.

Additionally, the Company currently maintains a $70,000,000 secured credit facility with a group of banks led by AmSouth Bank, and a $20,000,000 unsecured credit facility with Compass Bank. As of September 30, 2001, the Company had $2,000,000 and $10,000,000 outstanding under these credit facilities, respectively. At September 30, 2001 the Company also had letters of credit outstanding totaling $24,403,000 which were secured by the AmSouth credit facility.

The two secured credit facilities are subject to borrowing base calculations that effectively reduce the maximum amount that may be borrowed. At September 30, 2001, the Company had an additional $37,700,000 available to be borrowed under these facilities.

At September 30, 2001, the Company had six interest rate swap agreements outstanding totaling $142 million to effectively lock the interest rate on a portion of the Company's variable rate debt. At September 30, 2001, the Company had $66.4 million (after considering the interest rate swaps) of conventional floating rate debt at an average interest rate of 4.2% and an additional $22.6 million of tax-free variable rate debt at an average rate of 3.6%; all other debt was fixed rate term debt at an average interest rate of 6.9%.

The weighted average interest rate and weighted average maturity at September 30, 2001 for the $775.5 million of total notes payable were 6.6% and 11.3 years, respectively.

The Company believes that cash provided by operations is adequate and anticipates that it will continue to be adequate in both the short and long-term to meet operating requirements (including recurring capital expenditures at the apartment communities) and payment of distributions by the Company in accordance with REIT requirements under the applicable tax code.

The Company expects to meet its long term liquidity requirements, such as scheduled mortgage debt maturities, property developments and acquisitions, expansions and non-recurring capital expenditures, through long and medium-term collateralized and uncollateralized fixed rate borrowings, fundings from the Company's credit facilities, potential asset sales, and joint venture transactions.

INSURANCE

In the opinion of management, property and casualty insurance is in place which provides adequate coverage to provide financial protection against normal insurable risks such that it believes that any loss experienced would not have a significant impact on the Company's liquidity, financial position, or results of operations.

INFLATION

Substantially all of the resident leases at the communities allow, at the time of renewal, for adjustments in the rent payable thereunder, and thus may enable the Company to seek rent increases. The substantial majority of these leases are for one year or less. The short-term nature of these leases generally serves to reduce the risk to the Company of the adverse effects of inflation.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FAS Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

The Company is required to adopt the provisions of Statement 141 immediately, except with regard to business combinations initiated prior to July 1, 2001, which it expects to account for using the pooling-of-interests method, and Statement 142 effective January 1, 2002. Furthermore, goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before Statement 142 is adopted in full will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized and tested for impairment in accordance with the appropriate pre-Statement 142 accounting requirements prior to the adoption of Statement 142.

Statement 141 will require upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

As of the date of adoption, the Company expects to have unamortized goodwill of approximately $5,800,000, which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was $317,000 and $198,000 for the year ended December 31, 2000 and the nine months ended September 30, 2001, respectively. Because of the extensive effort needed to comply with adopting Statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In August 2001, FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement 144), which supersedes both FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of (Statement 121) and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and

Extraordinary, Unusual and Infrequently Occurring Events and Transactions (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). Statement 144 retains the fundamental provisions in Statement 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with Statement 121. For example, Statement 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. Statement 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike Statement 121, an impairment assessment under Statement 144 will not result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under Statement No. 142, Goodwill and Other Intangible Assets.

The Company is required to adopt Statement 144 no later than the year beginning after December 15, 2001, and plans to adopt its provisions for the quarter ending March 31, 2002. Management does not expect the adoption of Statement 144 for long-lived assets held for use to have a material impact on the Company's financial statements because the impairment assessment under Statement 144 is largely unchanged from Statement 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of Statement 144 will have on the Company's financial statements.

RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations contains 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 growth rate of revenues and expenses, anticipated lease-up (and rental concessions) at development properties, costs remaining to complete development properties, planned asset dispositions, disposition pricing, and planned acquisition and developments. Actual results and the timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including a downturn in general economic conditions or the capital markets, competitive factors including overbuilding or other supply/demand imbalances in some or all of our markets, construction delays that could cause additional apartment units to reach the market later than anticipated, changes in interest rates, and other items that are difficult to control such as insurance rates, increases in real estate taxes, and other general risks inherent in the apartment business. Although the Company 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 included in this report on Form 10-Q 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 the Company or any other person that the objectives and plans of the Company will be achieved.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

This information has been omitted as there have been no material changes in the Company's market risk as disclosed in the 2000 Annual Report on Form 10-K.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this report.

None.

(b) Reports on Form 8-K

Form	Event Reported	Date of Report	Date Filed
8-K	Sale of Canyon Creek	7-2-2001	7-2-2001
8-K	2Q01 conference call transcript and press release	8-3-2001	8-3-2001

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MID-AMERICA APARTMENT COMMUNITIES, INC.

Date: 11/14/2001

/s/Simon R.C. Wadsworth
Simon R.C. Wadsworth
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)