

MID AMERICA APARTMENT COMMUNITIES INC

Form 424B5

August 20, 2003

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Filed pursuant to Rule 424(b)(5)

Registration Number 333-60285

PROSPECTUS SUPPLEMENT

(To prospectus dated September 9, 1998)

700,000 Shares

Common Stock

\$28.40 per share

We are selling 700,000 shares of our Common Stock to certain investment advisory clients of Cohen & Steers Capital Management, Inc. (Cohen & Steers).

Our common stock is listed on the New York Stock Exchange under the symbol MAA. The last reported sale price of our Common Stock on the New York Stock Exchange on August 18, 2003 was \$29.75 per share.

You should consider the risks that we have described in Additional Risk Factors beginning on page S-3 and in Risk Factors in the accompanying prospectus beginning on page 5 before buying shares of our Common Stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The common stock will be ready for delivery on or about August 22, 2003.

The date of this prospectus supplement is August 18, 2003.

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Prospectus

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In this prospectus supplement, the terms we, us or our include Mid-America Apartment Communities, Inc., Mid-America Apartments, L.P. and their subsidiaries. Substantially all of our assets are held by, and all of our operations are conducted through, Mid-America Apartments, L.P., of which Mid-America Apartment Communities, Inc. is the sole general partner and owns an approximate 84.9% ownership interest as of July 31, 2003. Unless otherwise stated in this prospectus supplement, we have assumed throughout this prospectus supplement that the underwriters' over-allotment option is not exercised.

You should rely on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates or on other dates which are specified in those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

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Our Company

Mid-America Apartment Communities, Inc. is a Memphis, Tennessee-based real estate investment trust, or REIT. As of July 31, 2003, we owned, or had an ownership interest in, and operated 125 apartment communities containing 34,735 apartment units in 12 states. Our apartment communities appeal to middle and upper income residents primarily in large to mid-size cities in the southeastern United States and Texas. Approximately 72% of our apartment units are located in Tennessee, Georgia, Florida and Texas markets. As of July 31, 2003, our apartment communities had an average occupancy rate of 92.7%. We presently employ approximately 1,100 people. Currently our executive officers and directors beneficially own approximately 11.5% of our common stock.

Our 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 and management to provide highly competitive apartment communities, with a goal of maintaining high occupancy levels and increasing per unit average rentals. We manage expenses through our system of detailed management reporting and accountability in order to achieve increases in operating cash flow. We seek to increase operating cash flow and earnings per share to maximize shareholder value through a balanced strategy of internal and external growth.

In order to meet our strategic and financial objectives, we strive to:

empower our property managers to adjust rents in response to local market conditions and to concentrate resident turnover in peak rental demand months;

offer new services, including telephone and cable access, to residents to increase our revenue, and reduce our operating costs through initiatives such as the installation of individual apartment unit water and utility meters and billing for trash collection in certain apartment communities;

maintain a highly competitive portfolio with attractive curb appeal through extensive landscaping and exterior improvements and a research-based program of selective property additions and dispositions;

pursue joint venture relationships to generate additional fee income;

compensate employees through performance-based compensation and stock ownership programs;

maintain a hands-on management style and flat organizational structure that emphasizes senior management's continued close contact with the market and employees; and

improve our cost of capital through refinancing, repurchasing and issuing debt, shares of common stock and preferred stock and by managing our interest rate risk.

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As of July 31, 2003, we owned, or had an ownership interest in, and operated 125 apartment communities containing 34,735 apartment units in 12 states.

	Units	Portfolio Concentration	Average Occupancy	Average Rental Rate
Tennessee				
Memphis (1)	4,837	14.0%	92.1%	\$ 642.07
Nashville	1,399	4.0%	94.1%	\$ 722.26
Chattanooga	943	2.7%	92.7%	\$ 566.23
Jackson	664	1.9%	96.2%	\$ 577.84
Tennessee Total	7,843	22.6%	92.9%	\$ 641.82
Florida				
Jacksonville	3,130	9.0%	95.4%	\$ 725.29
Tampa	1,120	3.2%	92.8%	\$ 763.85
Other	2,518	7.2%	94.7%	\$ 727.67
Florida Total	6,768	19.4%	94.7%	\$ 732.55
Georgia				
Atlanta	2,116	6.1%	88.1%	\$ 757.19
Columbus/LaGrange	1,509	4.3%	97.2%	\$ 652.58
Augusta/Aiken/Savannah (3)	1,132	3.3%	93.5%	\$ 637.35
Other	1,742	5.0%	95.4%	\$ 659.75
Georgia Total	6,499	18.7%	93.1%	\$ 685.91
Texas				
Dallas	2,356	6.8%	86.2%	\$ 654.76
Austin	1,254	3.6%	93.7%	\$ 624.92
Houston	1,310	3.8%	91.7%	\$ 730.01
Texas Total	4,920	14.2%	89.6%	\$ 667.19
South Carolina				
Greenville	1,492	4.3%	86.5%	\$ 558.30
Other (3)	784	2.3%	82.8%	\$ 681.42
South Carolina Total	2,276	6.6%	85.2%	\$ 600.71
Mississippi (1)	1,673	4.8%	96.1%	\$ 588.98
Kentucky (2)	1,548	4.5%	95.8%	\$ 660.95
Alabama	952	2.7%	97.9%	\$ 648.87
Arkansas	808	2.3%	93.3%	\$ 622.04
North Carolina	738	2.1%	90.4%	\$ 548.21

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Ohio (2)	414	1.2%	93.0%	\$ 678.69
Virginia	296	0.9%	95.9%	\$ 732.26
	<hr/>	<hr/>	<hr/>	<hr/>
Total Apartment Units	34,735	100.0%	92.7%	\$ 665.91
	<hr/>	<hr/>	<hr/>	<hr/>

- (1) The Memphis, TN market includes two properties located in Southaven, MS.
- (2) The Ohio market includes one property located in Florence, KY.
- (3) The Augusta/Aiken/Savannah market includes two properties located in Aiken, SC.

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ADDITIONAL RISK FACTORS

Before you invest in the Common Stock, you should consider carefully the risk factors listed below together with all of the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the Risk Factors beginning on page 5 in the accompanying prospectus.

Increasing insurance costs may negatively impact our financial condition.

Because we have substantial real estate holdings, the cost of insuring our properties is a significant item of expense to us. Due in part to the events of September 11, 2001, and other recent disasters, premiums for property and casualty insurance have risen significantly in recent months. In addition, the effects of September 11, 2001 made it more likely that lenders will begin to require us to carry insurance against acts of terrorism on our properties. The cost of such insurance is likely to be high. If the cost of property and casualty insurance continues to rise, or if our lenders require us to begin insuring our properties against terrorism, our cost of doing business would likely rise, which may in turn negatively impact our financial condition and results of operations.

Adverse legislative or regulatory tax changes could reduce the market price of the Common Stock.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect Mid-America or its shareholders. On May 28, 2003, the President signed into law new tax legislation that reduces the federal tax rate on both dividends and long-term capital gains for individuals to 15% until 2008. Because REITs generally are not subject to corporate income tax, this reduced tax rate generally will not apply to ordinary REIT dividends, which will continue to be taxed at the higher tax rates applicable to ordinary income. However, the new 15% tax rate will apply to (i) long-term capital gains recognized on the disposition of REIT shares, (ii) REIT capital gain distributions (except to the extent attributable to real estate depreciation, in which case such distributions would continue to be subject to a 25% tax rate), (iii) REIT dividends attributable to dividends received by the REIT from non-REIT corporations, such as taxable REIT subsidiaries, and (iv) REIT dividends attributable to income that was subject to corporate income tax at the REIT level (e.g., to the extent that a REIT distributes less than 100% of its taxable income). The new tax legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs and could have an adverse effect on the market price of the Common Stock.

USE OF PROCEEDS

The net proceeds from the sale of the 700,000 shares of common stock offered hereby are estimated to be \$19,850,000. We will use the net proceeds along with borrowings under our existing credit facilities to purchase the two-thirds interest in our joint venture with Blackstone Realty Advisors that we do not currently own. The joint venture owns 10 properties totaling 2,793 apartments.

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The following table sets forth our actual capitalization on June 30, 2003, our capitalization on June 30, 2003 pro forma to give effect to the issuance of our Series H Preferred Stock and the redemption of our Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock, and our capitalization on June 30, 2003 pro forma as adjusted to give effect to the issuance and redemptions previously described and issuance of 700,000 shares of common stock. The information set forth in the following table should be read in connection with, and is qualified in its entirety by reference to, the financial statements and notes thereto incorporated by reference in this prospectus supplement and the accompanying prospectus.

	June 30, 2003		
	Historical	Pro Forma	As Adjusted
	(unaudited)		
	(Dollars in thousands)		
Notes payable	\$ 833,212	\$ 838,445	\$ 838,472
Minority interest	30,512	30,512	32,258
Shareholders' equity:			
Preferred stock, \$0.01 par value per share, 20,000,000 shares authorized No shares of 8.30% Series H Cumulative Redeemable Preferred Stock, Liquidation Preference \$25 per share, issued and outstanding, 5,600,000 shares issued and outstanding as adjusted		62	62
400,000 shares of 8 ⁵ / ₈ % Series G Cumulative Redeemable Preferred Stock, Liquidation Preference \$25 per share, issued and outstanding	4	4	4
3,000,000 shares of 9 ¹ / ₄ % Series F Cumulative Redeemable Preferred Stock, Liquidation Preference \$25 per share, authorized, 474,500 shares issued and outstanding	5	5	5
2,000,000 shares of 9 ¹ / ₄ % Series C Cumulative Redeemable Preferred Stock, Liquidation Preference \$25 per share, issued and outstanding, no shares issued and outstanding as adjusted	20		
1,938,830 shares of 8 ⁷ / ₈ % Series B Cumulative Preferred Stock, Liquidation Preference \$25 per share, issued and outstanding, no shares issued and outstanding as adjusted	19		
2,000,000 shares of 9.5% Series A Cumulative Preferred Stock, Liquidation Preference \$25 per share, issued and outstanding, no shares issued and outstanding as adjusted	20		
Common stock, \$0.01 par value per share, 50,000,000 shares authorized, 17,985,134 shares issued and outstanding, 18,685,134 shares issued and outstanding as adjusted	180	180	187
Additional paid-in capital	561,638	568,165	586,265
Other	(4,208)	(4,208)	(4,208)
Accumulated distributions in excess of net income	(207,484)	(207,484)	(207,484)
Accumulated other comprehensive loss	(34,542)	(34,542)	(34,542)
Total shareholders' equity	315,652	322,182	340,289
Total capitalization	\$ 1,179,376	\$ 1,191,139	\$ 1,211,019

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FEDERAL INCOME TAX CONSIDERATIONS

This section summarizes the federal income tax issues that you, as a shareholder, may consider relevant and supersedes the discussion in "Federal Income Tax Consequences" in the accompanying prospectus. The discussion contained herein does not purport to deal with all aspects of taxation that may be relevant to particular shareholders in light of their personal investment or tax circumstances, or to shareholders who are subject to special treatment under the federal income tax laws, such as insurance companies, tax-exempt organizations, financial institutions or broker-dealers, foreign corporations and persons who are not citizens or residents of the United States. Throughout this section Mid-America Apartment Communities, Inc. will be referred to as "Mid-America" in order to distinguish it from its subsidiaries.

The statements in this section are based on the current federal income tax laws governing qualification as a REIT. We cannot assure you that new laws, interpretations thereof, or court decisions, any of which may take effect retroactively, will not cause any statement in this section to be inaccurate.

We urge you to consult your own tax advisor regarding the specific tax consequences to you of investing in the Common Stock and of Mid-America's election to be taxed as a REIT. Specifically, you should consult your own tax advisor regarding the federal, state, local, foreign, and other tax consequences of such investment and election, and regarding potential changes in applicable tax laws.

Taxation of Mid-America

Mid-America elected to be taxed as a REIT for its taxable year ended on December 31, 1994. Mid-America believes that it has operated in a manner intended to qualify as a REIT since its election to be a REIT and it intends to continue to operate in such a manner. This section discusses the laws governing the federal income tax treatment of a REIT and its shareholders. These laws are highly technical and complex.

Mid-America's qualification as a REIT depends on its ability to meet on a continuing basis the qualification tests required by the federal tax laws. Those qualification tests involve the percentage of income that Mid-America earns from specified sources, the percentage of its assets that fall within specified categories, the diversity of its share ownership, and the percentage of its earnings that it distributes. We describe the REIT qualification tests in more detail below. For a discussion of the tax treatment of Mid-America and its shareholders if Mid-America fails to qualify as a REIT, please read "Failure to Qualify" on page S-12.

If Mid-America qualifies as a REIT, it generally will not be subject to federal income tax on the taxable income that it distributes to its shareholders. The benefit of that tax treatment to shareholders is that they avoid the "double taxation" (i.e., at both the corporate and shareholder levels) that generally results from owning stock in a corporation. However, even if Mid-America qualifies as a REIT, it will be subject to federal tax in the following circumstances:

Mid-America will pay federal income tax on taxable income (including net capital gain) that it does not distribute to its shareholders during, or within a specified time period after, the calendar year in which the income is earned.

Mid-America may be subject to the alternative minimum tax on any items of tax preference that it does not distribute or allocate to its shareholders.

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Mid-America will pay income tax at the highest corporate rate on (1) net income from the sale or other disposition of property acquired through foreclosure (foreclosure property) that it holds primarily for sale to customers in the ordinary course of business and (2) other non-qualifying income from foreclosure property.

Mid-America will pay a 100% tax on net income from certain sales or other dispositions of property (other than foreclosure property) that it holds primarily for sale to customers in the ordinary course of business.

If Mid-America fails to satisfy the 75% gross income test or the 95% gross income test, which are described below under

Requirements for Qualification Income Tests on page S-8, and nonetheless continues to qualify as a REIT because it meets certain other requirements, it will pay a 100% penalty tax on (1) the gross income attributable to the greater of (a) the amount by which it fails the 95% gross income

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test (but only if the qualifying income is less than 90% of its gross income) or (b) the amount by which it fails the 75% gross income test, multiplied by (2) a fraction intended to reflect its profitability.

If Mid-America fails to distribute during a calendar year at least the sum of (1) 85% of its REIT ordinary income for such year, (2) 95% of its REIT capital gain net income for such year, and (3) any undistributed taxable income from prior periods, it will pay a 4% excise tax on the excess of such required distribution over the amount it actually distributed. Mid-America may elect to retain and pay income tax on its net long-term capital gain.

If Mid-America acquires any asset from a C corporation, or a corporation generally subject to full corporate-level tax, in a merger or other transaction in which it acquires a basis in the asset that is determined by reference to the C corporation's basis in the asset, or another asset, it will pay tax at the highest regular corporate rate applicable if it recognizes gain on the sale or disposition of such asset during the 10-year period after it acquires such asset. The amount of gain on which it will pay tax is the lesser of (1) the amount of gain that it recognizes at the time of the sale or disposition and (2) the amount of gain that it would have recognized if it had sold the asset at the time it acquired the asset. Beginning with transactions occurring after January 2, 2002, the rule described in this paragraph will apply unless Mid-America elects deemed sale treatment.

Mid-America will be subject to a 100% tax on any redetermined rents, redetermined deductions or excess interest. In general, redetermined rents are rents from real property that are overstated as a result of services furnished by a taxable REIT subsidiary of Mid-America to any of its tenants. Redetermined deductions and excess interest represent amounts that are deducted by a taxable REIT subsidiary of Mid-America for amounts paid to Mid-America that are in excess of the amounts that would have been deducted based on arm's-length negotiations. See Taxable REIT Subsidiaries.

Requirements for Qualification

A REIT is a corporation, trust, or unincorporated association that meets the following requirements:

- 1) it is managed by one or more trustees or directors;
- 2) its beneficial ownership is evidenced by transferable shares or by transferable certificates of beneficial interest;
- 3) it would be taxable as a domestic corporation, but for the REIT provisions of the federal income tax laws;
- 4) it is neither a financial institution nor an insurance company subject to special provisions of the federal income tax laws;
- 5) at least 100 persons are beneficial owners of its shares or ownership certificates;

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6) not more than 50% in value of its outstanding shares or ownership certificates is owned, directly or indirectly, by five or fewer individuals, as defined in the federal income tax laws to include certain entities, during the last half of any taxable year;

7) it elects to be a REIT, or has made such election for a previous taxable year, and satisfies all relevant filing and other administrative requirements established by the Internal Revenue Service that must be met to elect and maintain REIT status;

8) it uses a calendar year for federal income tax purposes and complies with the record keeping requirements of the federal income tax laws; and

9) it meets certain other qualification tests, described below, regarding the nature of its income and assets.

Mid-America must meet requirements (1) through (4) during its entire taxable year and must meet requirement (5) during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. If Mid-America complies with all the requirements for ascertaining the ownership of its

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outstanding shares in a taxable year and has no reason to know that it violated requirement (5), it will be deemed to have satisfied requirement (5) for such taxable year. For purposes of determining share ownership under requirement (6), an individual generally includes a supplemental unemployment compensation benefits plan, a private foundation, or a portion of a trust permanently set aside or used exclusively for charitable purposes. An individual, however, generally does not include a trust that is a qualified employee pension or profit sharing trust under the federal income tax laws, and beneficiaries of such a trust will be treated as holding shares of Mid-America in proportion to their actuarial interests in the trust for purposes of requirement (6).

Mid-America believes that it has issued sufficient common stock with sufficient diversity of ownership to satisfy requirements (5) and (6) set forth above. In addition, Mid-America's charter restricts the ownership and transfer of the common and preferred stock so that Mid-America should continue to satisfy requirements (5) and (6). The provisions of the charter restricting the ownership and transfer of the common stock and preferred stock are described in *Description of Capital Stock Ownership Limitations* on page 18 in the accompanying prospectus.

Mid-America currently has 8 corporate subsidiaries and may have additional corporate subsidiaries in the future. A corporation that is a qualified REIT subsidiary is not treated as a corporation separate from its parent REIT. All assets, liabilities, and items of income, deduction, and credit of a qualified REIT subsidiary are treated as assets, liabilities, and items of income, deduction, and credit of the REIT. A qualified REIT subsidiary is a corporation, all of the capital stock of which is owned by the REIT and which does not make an election to be a taxable REIT subsidiary. Thus, in applying the requirements described herein, the separate existence of any qualified REIT subsidiary of Mid-America will be ignored, and all assets, liabilities, and items of income, deduction, and credit of such subsidiary will be treated as assets, liabilities, and items of income, deduction, and credit of Mid-America. All of Mid-America's corporate subsidiaries are qualified REIT subsidiaries. Accordingly, they are not subject to federal corporate income taxation, though they may be subject to state and local taxation.

In the case of a REIT that is a partner in a partnership, the REIT is treated as owning its proportionate share of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. Thus, Mid-America's proportionate share of the assets, liabilities, and items of income of Mid-America Apartments, L.P., and of any other partnership, joint venture, or limited liability company that is treated as a partnership for federal income tax purposes in which Mid-America has acquired or will acquire an interest, directly or indirectly (a *Subsidiary Partnership*), is treated as assets and gross income of Mid-America for purposes of applying the various REIT qualification requirements.

REITs are permitted to own up to 100% of the stock of one or more taxable REIT subsidiaries, or TRSs, after January 1, 2001. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by the parent REIT. However, a TRS may not directly or indirectly operate or manage any hotels or health care facilities or provide rights to any brand name under which any hotel or health care facility is operated. The subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A TRS will pay income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on transactions between a TRS and its parent REIT or the REIT's tenants that are not *conducted on an arm's length basis*. *We do not currently have any TRSs, but we may form or acquire one or more TRSs in the future.*

Income Tests

Mid-America must satisfy two gross income tests annually to maintain its qualification as a REIT. First, at least 75% of its gross income for each taxable year must consist of defined types of income that it derives, directly or indirectly, from investments relating to real property or mortgages on real property or temporary investment income. Qualifying income for purposes of that 75% gross income test includes, but is not limited to:

rents from real property;

interest on debt secured by mortgages on real property or on interests in real property;

gain from the sale or other disposition of real property, including interests in real property and interests in mortgages on real property, that is not inventory or other dealer property; and

dividends or other distributions on and gain from the sale of shares in other REITs.

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Second, at least 95% of its gross income for each taxable year must consist of income that is qualifying income for purposes of the 75% gross income test, dividends, other types of interest or gain from the sale or disposition of stock or securities. Gross income from Mid-America's sale of property that it holds primarily for sale to customers in the ordinary course of business is excluded from both income tests. The following paragraphs discuss the specific application of these tests to Mid-America.

Rent that Mid-America receives from real property that it owns and leases to its residents will qualify as rents from real property, which is qualifying income for purposes of the 75% and 95% gross income tests, only if the following conditions are met:

First, the rent must not be based, in whole or in part, on the income or profits of any person, but may be based on a fixed percentage or percentages of receipts or sales;

Second, neither Mid-America nor a direct or indirect owner of 10% or more of its stock may own, actually or constructively, 10% or more of a tenant from whom it receives rent (except with respect to TRSs in certain circumstances);

Third, none of the rent attributable to personal property received under a lease of real property will qualify as rent from real property if the rent attributable to personal property exceeds 15% of the total rent received under the lease; and

Finally, Mid-America generally must not operate or manage its real property or furnish or render services to its tenants, other than services customarily furnished in connection with the rental of real property and other than services through an independent contractor who is adequately compensated and from whom Mid-America does not derive revenue. An independent contractor is any person who does not own, directly or indirectly, more than 35% of Mid-America's stock and in which not more than 35% interest is owned, directly or indirectly by one or more persons also owning 35% or more of Mid-America. However, Mid-America need not provide services through an independent contractor, but instead may provide services directly, if the services are usually or customarily rendered in connection with the rental of space for occupancy only and are not considered to be provided for the tenants' convenience. In addition, Mid-America may provide a minimal amount of non-customary services to the tenants of a property, other than through an independent contractor, as long as its income from the services does not exceed 1% of its income from the related property.

Mid-America Apartments, L.P. receives fees in consideration of the performance of management, landscaping and administrative services with respect to properties that are not wholly owned, directly or indirectly, by Mid-America Apartments, L.P. A portion of such fees generally will not qualify under the 75% or 95% gross income tests. Mid-America also receives other non-qualifying income, such as income from coin-operated laundry machines and income from corporate and guests apartments. We believe, however, that the aggregate amount of such fees and other non-qualifying income in any taxable year will not cause Mid-America to exceed the limits on non-qualifying income under the 75% and 95% gross income tests.

A REIT will incur a 100% tax on the net income derived from any sale or other disposition of property, other than foreclosure property, that the REIT holds primarily for sale to customers in the ordinary course of a trade or business. We believe that none of Mid-America's assets is held for sale to customers and that a sale of any such asset would not be in the ordinary course of its business. Whether a REIT holds an asset primarily for sale to customers in the ordinary course of a trade or business depends, however, on the facts and circumstances in effect from time to time, including those related to a particular asset. Nevertheless, we will attempt to comply with the terms of safe-harbor provisions in the federal income tax laws prescribing when an asset sale will not be characterized as a prohibited transaction. We cannot provide assurance, however, that we can comply with such safe-harbor provisions or that Mid-America will avoid owning property that may be characterized as property that it holds primarily for sale to customers in the ordinary course of a trade or business.

From time to time, Mid-America or Mid-America Apartments, L.P. may enter into hedging transactions with respect to one or more of its assets or liabilities. Its hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase such items, and futures and

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forward contracts. To the extent that Mid-America or Mid-America Apartments, L.P. enters into an interest rate swap or cap contract, option, futures contract, forward rate agreement, or any similar financial instrument to hedge its indebtedness incurred to acquire or carry real estate assets, any periodic income or gain from the disposition of such contract should be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. To the extent that Mid-America or

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Mid-America Apartments, L.P. hedges with other types of financial instruments, or in other situations, it is not entirely clear how the income from those transactions will be treated for purposes of the gross income tests. We intend to structure any hedging transactions in a manner that does not jeopardize Mid-America's status as a REIT.

If Mid-America fails to satisfy one or both of the gross income tests for any taxable year, it nevertheless may qualify as a REIT for such year if it qualifies for relief under certain provisions of the Code. Those relief provisions generally will be available if:

our failure to meet such tests is due to reasonable cause and not due to willful neglect;

we attach a schedule of the sources of our income to our tax return; and

any incorrect information on the schedule was not due to fraud with intent to evade tax.

We cannot predict, however, whether in all circumstances Mid-America would qualify for the relief provisions. In addition, even if the relief provisions apply, Mid-America would incur the penalty tax on excess gross income described above in Taxation of Mid-America.

Asset Tests

To maintain its qualification as a REIT, Mid-America also must satisfy two asset tests at the close of each quarter of each taxable year.

(1) First, at least 75% of the value of our total assets must consist of:

cash or cash items, including certain receivables;

government securities;

interests in real property, including leaseholds and options to acquire real property and leaseholds;

interests in mortgages on real property;

stock in other REITs; and

investments in stock or debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or offerings of debt with at least a five-year term.

(2) The second asset test has two components:

First, of Mid-America's investments not included in the 75% asset class, the value of our interest in any one issuer's securities may not exceed 5% of the value of our total assets; and

Second, Mid-America may not own more than 10% of any one issuer's outstanding voting securities or more than 10% of the total value of the outstanding securities of a single issuer. For purposes of the 10% value test, the term "securities" excludes securities includible under the 75% asset test as well as "straight debt," which is non-contingent, non-convertible debt issued by an individual, by a partnership in which Mid-America owns at least a 20% profit interest or by a corporation in which Mid-America owns no other securities.

For purposes of both components of the second asset test, "securities" does not include Mid-America's stock in any qualified REIT subsidiary, other REITs, a TRS or our equity interest in any partnership.

In addition to the asset tests set forth above, no more than 20% of the value of Mid-America's total assets may consist of the securities of one or more TRSs.

If Mid-America should fail to satisfy the asset tests at the end of a calendar quarter, it would not lose its REIT status if:

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(1) it satisfied the asset tests at the close of the preceding calendar quarter; and

(2) the discrepancy between the value of its assets and the asset test requirements arose from changes in the market values of its assets and was not wholly or partly caused by the acquisition during the calendar quarter of one or more non-qualifying assets.

If we fail to satisfy the condition described in clause (2) of the preceding sentence, we still could avoid disqualification as a REIT by eliminating any discrepancy within 30 days after the close of the calendar quarter in which the discrepancy arose.

Distribution Requirements

Each taxable year, Mid-America must distribute dividends, other than capital gain dividends and deemed distributions of retained capital gain, to our shareholders in an aggregate amount at least equal to:

the sum of (1) 90% of our REIT taxable income (computed without regard to the dividends paid deduction and our net capital gain or loss) and (2) 90% of our after-tax net income, if any, from foreclosure property; minus

the excess of the sum of particular items of non-cash income over 5% of our REIT taxable income.

Mid-America must pay such distributions in the taxable year to which they relate, or in the following taxable year if it declares the distribution before it timely files its federal income tax return for such year and pay the distribution on or before the first regular dividend payment date after such declaration.

Mid-America will pay federal income tax on taxable income, including net capital gain, that it does not distribute to shareholders. Furthermore, if Mid-America fails to distribute during a calendar year, or by the end of January following such calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

85% of its REIT ordinary income for such year;

95% of its REIT capital gain income for such year; and

any undistributed taxable income from prior periods,

Mid-America will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts it actually distributed. Mid-America may elect to retain and pay income tax on the net long-term capital gain it receives in a taxable year. If it so elects, Mid-America will be treated as having distributed any such retained amount for purposes of the 4% excise tax described above. Mid-America has made, and intends to continue to make, timely distributions sufficient to satisfy the annual distribution requirements.

It is possible that, from time to time, Mid-America may experience timing differences between (1) the actual receipt of income and actual payment of deductible expenses and (2) the inclusion of that income and deduction of such expenses in arriving at our REIT taxable income. For example, Mid-America may not deduct recognized capital losses from our REIT taxable income. Further, it is possible that, from time to time, Mid-America may be allocated a share of net capital gain attributable to the sale of depreciated property that exceeds our allocable share of cash attributable to that sale. As a result of the foregoing, Mid-America may have less cash than is necessary to distribute all of our taxable income and thereby avoid corporate income tax and the excise tax imposed on certain undistributed income. In such a situation, we may need to borrow funds or issue additional common or preferred stock.

Under certain circumstances, Mid-America may be able to correct a failure to meet the distribution requirement for a year by paying deficiency dividends to our shareholders in a later year. Mid-America may include such deficiency dividends in our deduction for dividends paid for the earlier year. Although Mid-America may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest to the IRS based upon the amount of any deduction we take for deficiency dividends.

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Record Keeping Requirement

Mid-America must maintain certain records in order to qualify as a REIT. In addition, to avoid a monetary penalty, we must request on an annual basis particular information from our shareholders designed to disclose the actual ownership of its outstanding stock. Mid-America has complied, and Mid-America intends to continue to comply, with such requirements.

Failure to Qualify

If Mid-America failed to qualify as a REIT in any taxable year, and no relief provision applied, we would be subject to federal income tax and any applicable alternative minimum tax on our taxable income at regular corporate rates. In calculating our taxable income in a year in which we failed to qualify as a REIT, Mid-America would not be able to deduct amounts distributed to our shareholders. In fact, Mid-America would not be required to distribute any amounts to shareholders in such year. In such event, to the extent of our current and accumulated earnings and profits, all distributions to shareholders would be taxable as ordinary income. Subject to certain limitations of the federal income tax laws, corporate shareholders might be eligible for the dividends received deduction. Unless Mid-America qualified for relief under specific statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. We cannot predict whether in all circumstances Mid-America would qualify for such statutory relief.

Taxation of Taxable U.S. Shareholders

As long as Mid-America qualifies as a REIT, a taxable U.S. shareholder must take into account as ordinary income distributions made out of Mid-America's current or accumulated earnings and profits and not designated either as capital gain dividends or retained long-term capital gain. Mid-America's earnings and profits will be allocated first to its preferred stock and then to its common stock. A U.S. shareholder will not qualify for the dividends received deduction generally available to corporations. As used herein, the term U.S. shareholder means a holder of Common Stock that for U.S. federal income tax purposes is:

a citizen or resident of the United States;

a corporation, partnership, or other entity created or organized in or under the laws of the United States or of a political subdivision thereof;

an estate whose income from sources without the United States is includible in gross income for U.S. federal income tax purposes regardless of its source; or

any trust with respect to which (1) a U.S. court is able to exercise primary supervision over the administration of such trust and (2) one or more U.S. persons have the authority to control all substantial decisions of the trust.

A U.S. shareholder generally will recognize distributions that we designate as capital gain dividends as long-term capital gain without regard to the period for which the U.S. shareholder has held its Common Stock. Subject to certain limitations, we will designate our capital gain dividends as either 20% or 25% rate distributions.

Mid-America may elect to retain and pay income tax on the net long-term capital gain that we receive in a taxable year. In that case, a U.S. shareholder must include its proportionate share of Mid-America's undistributed long-term capital gain as long-term capital gain. The U.S. shareholder would then receive a credit or refund for its proportionate share of the tax Mid-America paid. The U.S. shareholder would increase the basis in its stock by the amount of its proportionate share of Mid-America's undistributed long-term capital gain, minus its share of the tax Mid-America paid.

A U.S. shareholder will not incur tax on a distribution in excess of Mid-America's current and accumulated earnings and profits if such distribution does not exceed the adjusted basis of the U.S. shareholder's Common Stock. Instead, such distribution will reduce the adjusted basis of such Common Stock. A U.S. shareholder will recognize a distribution in excess of both Mid-America's current and accumulated earnings and profits and the U.S. shareholder's adjusted basis in its Common Stock as long-term capital gain, or short-term capital gain if the Common Stock has been held for one year or less, assuming the Common Stock is a capital asset in the hands of the U.S. shareholder. In addition, if Mid-America declares a distribution in October, November, or December of any year that is payable to a U.S. shareholder of record on a specified date in any such month, such distribution shall be

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treated as both paid by Mid-America and received by the U.S. shareholder on December 31st of such year, provided that Mid-America actually pays the distribution during January of the following calendar year.

Shareholders may not include in their individual income tax returns any net operating losses or capital losses of Mid-America. Instead, such losses would be carried over by Mid-America for potential offset against our future income generally. Taxable distributions from Mid-America and gain from the disposition of the Common Stock will not be treated as passive activity income and, therefore, shareholders generally will not be able to apply any passive activity losses (such as losses from certain types of limited partnerships in which the shareholder is a limited partner) against such income. In addition, taxable distributions from Mid-America and gain from the disposition of Common Stock generally will be treated as investment income for purposes of the investment interest limitations. Mid-America will notify shareholders after the close of Mid-America's taxable year as to the portions of the distributions attributable to that year that constitute ordinary income, return of capital, and capital gain.

Taxation of U.S. Shareholders on the Disposition of the Common Stock

In general, a U.S. shareholder who is not a dealer in securities must treat any gain or loss realized upon a taxable disposition of the Common Stock as long-term capital gain or loss if the U.S. shareholder has held the Common Stock for more than one year and otherwise as short-term capital gain or loss. However, a U.S. shareholder must treat any loss upon a sale or exchange of Common Stock held by such shareholder for six months or less as a long-term capital loss to the extent of capital gain dividends and other distributions from Mid-America that such U.S. shareholder treats as long-term capital gain. All or a portion of any loss that a U.S. shareholder realizes upon a taxable disposition of the Common Stock may be disallowed if the U.S. shareholder purchases other shares of Common Stock within 30 days before or after the disposition.

Capital Gains and Losses

A taxpayer generally must hold a capital asset for more than one year for gain or loss derived from its sale or exchange to be treated as long-term capital gain or loss. The highest marginal individual income tax rate applicable to ordinary income currently is 35%. The maximum tax rate on long-term capital gain applicable to non-corporate taxpayers is 15% (for taxable years ending on or after May 6, 2003 and before January 1, 2009). The maximum tax rate on long-term capital gain from the sale or exchange of section 1250 property, or depreciable real property, is 25% to the extent that such gain would have been treated as ordinary income if the property were section 1245 property. With respect to distributions that Mid-America designates as capital gain dividends and any retained capital gain that it is deemed to distribute, Mid-America generally may designate whether such a distribution is taxable to its non-corporate shareholders at a 15%, 20% or 25% rate. Thus, the tax rate differential between capital gain and ordinary income for non-corporate taxpayers may be significant. In addition, the characterization of income as capital gain or ordinary income may affect the deductibility of capital losses. A non-corporate taxpayer may deduct capital losses not offset by capital gains against its ordinary income only up to a maximum annual amount of \$3,000. A non-corporate taxpayer may carry forward unused capital losses indefinitely. A corporate taxpayer must pay tax on its net capital gain at ordinary corporate rates. A corporate taxpayer can deduct capital losses only to the extent of capital gains, with unused losses being carried back three years and forward five years.

Information Reporting Requirements and Backup Withholding

Mid-America will report to its shareholders and to the IRS the amount of distributions we pay during each calendar year, and the amount of tax we withhold, if any. Under the backup withholding rules, a shareholder may be subject to backup withholding at the rate of 28% with respect to distributions unless such holder (1) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact

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or (2) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules. A shareholder who does not provide Mid-America with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the shareholder's income tax liability. In addition, Mid-America may be required to withhold a portion of capital gain distributions to any shareholders who fail to certify their non-foreign status to Mid-America. See Taxation of Non-U.S. Shareholders.

Taxation of Tax-Exempt Shareholders

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts and annuities generally are exempt from federal income taxation. However, they are subject to

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taxation on their unrelated business taxable income. While many investments in real estate generate unrelated business taxable income, the IRS has issued a published ruling that dividend distributions from a REIT to an exempt employee pension trust do not constitute unrelated business taxable income, provided that the exempt employee pension trust does not otherwise use the shares of the REIT in an unrelated trade or business of the pension trust. Based on that ruling, amounts that Mid-America distributes to tax-exempt shareholders generally should not constitute unrelated business taxable income. However, if a tax-exempt shareholder were to finance its acquisition of the Common Stock with debt, a portion of the income that it receives from Mid-America would constitute unrelated business taxable income pursuant to the debt-financed property rules. Furthermore, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans that are exempt from taxation under special provisions of the federal income tax laws are subject to different unrelated business taxable income rules, which generally will require them to characterize distributions that they receive from Mid-America as unrelated business taxable income. Finally, in certain circumstances, a qualified employee pension or profit sharing trust that owns more than 10% of Mid-America's stock is required to treat a percentage of the dividends that it receives from Mid-America as unrelated business taxable income. Such percentage is equal to the gross income Mid-America derives from an unrelated trade or business (determined as if it were a pension trust) divided by its total gross income for the year in which it pays the dividends. That rule applies to a pension trust holding more than 10% of Mid-America's stock only if:

the percentage of its dividends that the tax-exempt trust must treat as unrelated business taxable income is at least 5%;

Mid-America qualifies as a REIT by reason of the modification of the rule requiring that no more than 50% of Mid-America's shares be owned by five or fewer individuals that allows the beneficiaries of the pension trust to be treated as holding Mid-America's stock in proportion to their actuarial interests in the pension trust; and

either (1) one pension trust owns more than 25% of the value of Mid-America's stock or (2) a group of pension trusts individually holding more than 10% of the value of Mid-America's stock collectively owns more than 50% of the value of Mid-America's stock.

Taxation of Non-U.S. Shareholders

The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships, and other foreign shareholders (collectively, non-U.S. shareholders) are complex. This section is only a summary of such rules. **We urge non-U.S. shareholders to consult their own tax advisors to determine the impact of federal, state, and local income tax laws on ownership of the Common Stock, including any reporting requirements.**

A non-U.S. shareholder that receives a distribution that is not attributable to gain from Mid-America's sale or exchange of U.S. real property interests (as defined below) and that Mid-America does not designate as a capital gain dividend or retained capital gain will recognize ordinary income to the extent that Mid-America pays such distribution out of our current or accumulated earnings and profits. A withholding tax equal to 30% of the gross amount of the distribution ordinarily will apply to such distribution unless an applicable tax treaty reduces or eliminates the tax or Mid-America elects to reduce the amount of withholding tax at the time the distribution is made to the extent the distribution is not made out of current or accumulated earnings and profits. However, if a distribution is treated as effectively connected with the non-U.S. shareholder's conduct of a U.S. trade or business, we will not withhold any tax and the non-U.S. shareholder generally will be subject to federal income tax on the distribution at graduated rates, in the same manner as U.S. shareholders are taxed with respect to such distributions and also may be subject to the 30% branch profits tax in the case of a non-U.S. shareholder that is a non-U.S. corporation. Mid-America plans to withhold U.S. income tax at the rate of 30% on the gross amount of any such distribution paid to a non-U.S. shareholder unless either:

a lower treaty rate applies and the non-U.S. shareholder files the required form evidencing eligibility for that reduced rate with Mid-America; or

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the non-U.S. shareholder files an IRS Form 4224 with Mid-America claiming that the distribution is effectively connected income.

A non-U.S. shareholder will not incur tax on a distribution in excess of Mid-America's current and accumulated earnings and profits if such distribution does not exceed the adjusted basis of its Common Stock.

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Instead, such a distribution will reduce the adjusted basis of such Common Stock. A non-U.S. shareholder will be subject to tax on a distribution that exceeds both Mid-America's current and accumulated earnings and profits and the adjusted basis of its Common Stock, if the non-U.S. shareholder otherwise would be subject to tax on gain from the sale or disposition of its Common Stock, as described below. Because Mid-America generally cannot determine at the time it makes a distribution whether or not the distribution will exceed its current and accumulated earnings and profits, it normally will withhold tax on the entire amount of any distribution at the same rate as it would withhold on a dividend. However, a non-U.S. shareholder may obtain a refund of amounts that Mid-America withholds if it later determines that a distribution in fact exceeded its current and accumulated earnings and profits.

Mid-America must withhold 10% of any distribution that exceeds our current and accumulated earnings and profits. Consequently, although we intend to withhold at a rate of 30% on the entire amount of any distribution, to the extent that we do not do so, we will withhold at a rate of 10% on any portion of a distribution not subject to withholding at a rate of 30%.

For any year in which Mid-America qualifies as a REIT, a non-U.S. shareholder will incur tax on distributions that are attributable to gain from our sale or exchange of U.S. real property interests under special provisions of the federal income tax laws known as FIRPTA. The term U.S. real property interests includes interests in real property and stock in corporations at least 50% of whose assets consists of interests in real property, but excludes mortgage loans. Under those rules, a non-U.S. shareholder is taxed on distributions attributable to gain from sales of U.S. real property interests as if such gain were effectively connected with a U.S. business of the non-U.S. shareholder. A non-U.S. shareholder would be taxed on such a distribution at the normal capital gain rates applicable to U.S. shareholders, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual. A non-U.S. corporate shareholder not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax on such a distribution. Mid-America must withhold 35% of any distribution that it could designate as a capital gain dividend. A non-U.S. shareholder may receive a credit against its tax liability for the amount Mid-America withholds.

A non-U.S. shareholder generally will not incur tax under FIRPTA on gain from the sale of its Common Stock as long as at all times non-U.S. persons hold, directly or indirectly, less than 50% in value of Mid-America's stock. We cannot assure you that that test will be met. However, a non-U.S. shareholder that owned, actually or constructively, 5% or less of the Common Stock at all times during a specified testing period will not incur tax under FIRPTA upon the sale of its Common Stock if the Common Stock is regularly traded on an established securities market. Because it is expected that the Common Stock will be regularly traded on an established securities market, a non-U.S. shareholder should not incur tax under FIRPTA with respect to gain on a sale of the Common Stock unless it owns, actually or constructively, more than 5% of such stock. If the gain on the sale of the Common Stock were taxed under those provisions, a non-U.S. shareholder would be taxed in the same manner as U.S. shareholders with respect to such gain, subject to applicable alternative minimum tax, a special alternative minimum tax in the case of nonresident alien individuals, and the possible application of the 30% branch profits tax in the case of non-U.S. corporations. Furthermore, a non-U.S. shareholder will incur tax on gain not subject to FIRPTA if (1) the gain is effectively connected with the non-U.S. shareholder's U.S. trade or business, in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to such gain, or (2) the non-U.S. shareholder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a tax home in the United States, in which case the non-U.S. shareholder will incur a 30% tax on his capital gains.

Other Tax Considerations

State and Local Taxes

Both Mid-America and you may be subject to state and local tax in various states and localities, including those states and localities in which Mid-America or you transact business, own property, or reside. The state and local tax treatment in such jurisdictions may differ from the federal income tax treatment described above. Consequently, you should consult your own tax advisor regarding the effect of state and local tax laws

upon an investment in the common stock.

Tax Aspects of Mid-America's Investments in Mid-America Apartments, L.P. and Subsidiary Partnerships

The following discussion summarizes certain federal income tax considerations applicable to our direct or indirect investments in Mid-America Apartments, L.P. and its subsidiary partnerships (each individually a Partnership and, collectively, the Partnerships). The discussion does not cover state or local tax laws or any federal tax laws other than income tax laws.

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Classification as Partnerships

Mid-America is entitled to include in its income its distributive share of each Partnership's income and to deduct its distributive share of each Partnership's losses only if the Partnerships are classified for federal income tax purposes as partnerships rather than as corporations or associations taxable as corporations. An organization will be classified as a partnership, rather than as a corporation, for federal income tax purposes if it (1) is treated as a partnership under Treasury Regulations, effective January 1, 1997, relating to entity classification (the check-the-box regulations) and (2) is not a publicly traded partnership.

Under the check-the-box regulations, an unincorporated entity with at least two members may elect to be classified either as an association taxable as a corporation or as a partnership. If such an entity fails to make an election, it generally will be treated as a partnership for federal income tax purposes. The federal income tax classification of an entity that was in existence prior to January 1, 1997, such as the Partnerships, will be respected for all periods prior to January 1, 1997 if:

the entity had a reasonable basis for its claimed classification;

the entity and all members of the entity recognized the federal tax consequences of any changes in the entity's classification within the 60 months prior to January 1, 1997; and

neither the entity nor any member of the entity was notified in writing by a taxing authority on or before May 8, 1996 that the classification of the entity was under examination.

Each Partnership reasonably claimed partnership classification under the Treasury Regulations relating to entity classification in effect prior to January 1, 1997. In addition, the Partnerships intend to continue to be classified as partnerships for federal income tax purposes and no Partnership will elect to be treated as an association taxable as a corporation under the check-the-box regulations.

A publicly traded partnership is a partnership whose interests are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof. A publicly traded partnership will not, however, be treated as a corporation for any taxable year if 90% or more of the partnership's gross income for such year consists of certain passive-type income, including real property rents, gains from the sale or other disposition of real property, interest, and dividends (the 90% passive income exception).

Treasury regulations (the PTP regulations) provide limited safe harbors from the definition of a publicly traded partnership. Pursuant to one of those safe harbors (the private placement exclusion), interests in a partnership will not be treated as readily tradable on a secondary market or the substantial equivalent thereof if (1) all interests in the partnership were issued in a transaction (or transactions) that was not required to be registered under the Securities Act of 1933, as amended, and (2) the partnership does not have more than 100 partners at any time during the partnership's taxable year. In determining the number of partners in a partnership, a person owning an interest in a partnership, grantor trust, or S corporation that owns an interest in the partnership is treated as a partner in such partnership only if (1) substantially all of the value of the owner's interest in the entity is attributable to the entity's direct or indirect interest in the partnership and (2) a principal purpose of the use of the entity is to permit the partnership to satisfy the 100-partner limitation. Each Partnership qualifies for the private placement exclusion.

If a Partnership is considered a publicly traded partnership under the PTP regulations because it is deemed to have more than 100 partners, such Partnership should not be treated as a corporation because it should be eligible for the 90% passive income exception. If, however, for any

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reason a Partnership were taxable as a corporation, rather than as a partnership, for federal income tax purposes, Mid-America would not be able to qualify as a REIT. See Requirements for Qualification Income Tests and Requirements for Qualification Asset Tests. In addition, any change a Partnership's status for tax purposes might be treated as a taxable event, in which case Mid-America might incur tax liability without any related cash distribution. See Requirements for Qualification Distribution Requirements. Further, items of income and deduction of such Partnership would not pass through to its partners, and its partners would be treated as shareholders for tax purposes. Consequently, such Partnership would be required to pay income tax at corporate tax rates on its net income, and distributions to its partners would constitute dividends that would not be deductible in computing such Partnership's taxable income.

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Income Taxation of the Partnerships and their Partners

Partners, Not the Partnerships, Subject to Federal Tax.

A partnership is not a taxable entity for federal income tax purposes. Rather, Mid-America is required to take into account its allocable share of each Partnership's income, gains, losses, deductions, and credits for any taxable year of such Partnership ending within or with the taxable year of Mid-America, without regard to whether Mid-America has received or will receive any distribution from such Partnership.

Partnership Allocations.

Although a partnership agreement generally will determine the allocation of income and losses among partners, such allocations will be disregarded for tax purposes if they do not comply with the provisions of the federal income tax laws governing partnership allocations. If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. Each Partnership's allocations of taxable income, gain, and loss are intended to comply with the requirements of the federal income tax laws governing partnership allocations.

Tax Allocations With Respect to Contributed Properties.

Income, gain, loss, and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated in a manner such that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss is generally equal to the difference between the fair market value of contributed property at the time of contribution, and the adjusted tax basis of such property at the time of contribution (a book-tax difference). Such allocations are solely for federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. Mid-America Apartments, L.P. was formed by way of contributions of appreciated property and has received contributions of appreciated property since Mid-America's initial public offering. Mid-America Apartments L.P.'s partnership agreement requires such allocations to be made in a manner consistent with the federal income tax laws governing partnership allocations.

In general, the carryover basis of the facilities contributed by Mid-America to Mid-America Apartments, L.P. will cause Mid-America to be allocated lower depreciation and other deductions, and possibly amounts of taxable income, in the event of a sale of such a facility, in excess of the economic or book income allocated to it as a result of such sale. While these adjustments will tend to eliminate the book-tax differences over the life of the Partnership, the federal income tax laws governing partnership allocations do not always entirely rectify the book-tax difference on an annual basis or with respect to a specific taxable transaction such as a sale. Therefore, elimination of book-tax differences with respect to the facilities contributed by Mid-America may cause Mid-America to recognize taxable income in excess of its proportionate share of the cash proceeds, which might adversely affect Mid-America's ability to comply with the REIT distribution requirements. See Requirements for Qualification Distribution Requirements.

Under the partnership agreement of Mid-America Apartments, L.P., depreciation or amortization deductions of Mid-America Apartments, L.P. generally will be allocated among the partners in accordance with their respective interests in Mid-America Apartments, L.P., except to the

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extent that Mid-America Apartments, L.P. is required under the federal income tax laws governing partnership allocations to use a method for allocating tax depreciation deductions attributable to contributed properties that results in Mid-America receiving a disproportionate share of such deductions. In addition, gain on sale of a facility that has been contributed (in whole or in part) to Mid-America Apartments, L.P. will be specially allocated to the contributing partners to the extent of any built-in gain with respect to such facility for federal income tax purposes.

Basis in Partnership Interest.

Mid-America's adjusted tax basis in its partnership interest in Mid-America Apartments, L.P. generally is equal to (1) the amount of cash and the basis of any other property contributed to Mid-America Apartments, L.P. by

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Mid-America, (2) increased by (A) its allocable share of Mid-America Apartments, L.P.'s income and (B) its allocable share of indebtedness of Mid-America Apartments, L.P., and (3) reduced, but not below zero, by (A) Mid-America's allocable share of Mid-America Apartments, L.P.'s loss and (B) the amount of cash distributed to Mid-America, and by any constructive distributions resulting from a reduction in Mid-America's share of indebtedness of Mid-America Apartments, L.P.

If the allocation of Mid-America's distributive share of Mid-America Apartments, L.P.'s loss would reduce the adjusted tax basis of Mid-America's partnership interest in Mid-America Apartments, L.P. below zero, the recognition of such loss will be deferred until such time as the recognition of such loss would not reduce Mid-America's adjusted tax basis below zero. To the extent that Mid-America Apartments, L.P.'s distributions, or any decrease in Mid-America's share of the indebtedness of Mid-America Apartments, L.P. (such decrease being considered a constructive cash distribution to the partners), would reduce Mid-America's adjusted tax basis below zero, such distributions (including such constructive distributions) would constitute taxable income to Mid-America. Such distributions and constructive distributions normally will be characterized as capital gain, and, if Mid-America's partnership interest in Mid-America Apartments, L.P. has been held for longer than the long-term capital gain holding period (currently one year), the distributions and constructive distributions will constitute long-term capital gain.

Sale of a Partnership's Property

Generally, any gain realized by a Partnership on the sale of property held by the Partnership for more than one year will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture. Any gain recognized by a Partnership on the disposition of contributed properties will be allocated first to the partners of the Partnership to the extent of their built-in gain on those properties for federal income tax purposes. The partners' built-in gain on the contributed properties sold will equal the excess of the partners' proportionate share of the book value of those properties over the partners' tax basis allocable to those properties at the time of the sale. Any remaining gain recognized by the Partnership on the disposition of the contributed properties, and any gain recognized by the Partnership on the disposition of the other properties, will be allocated among the partners in accordance with their respective percentage interests in the Partnership.

Mid-America's share of any gain realized by a Partnership on the sale of any property held by the Partnership as inventory or other property held primarily for sale to customers in the ordinary course of the Partnership's trade or business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Such prohibited transaction income also may have an adverse effect upon Mid-America's ability to satisfy the income tests for REIT status. See Requirements for Qualification Income Tests. Mid-America, however, does not presently intend to allow any Partnership to acquire or hold any property that represents inventory or other property held primarily for sale to customers in the ordinary course of Mid-America's or such Partnership's trade or business.

Taxable REIT Subsidiaries

Mid-America may own up to 100% of the stock of one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying income if earned directly by Mid-America. A TRS may provide services to Mid-America's apartment communities and perform activities unrelated to those apartment communities, such as third-party management, development, and other independent business activities. Under the Code, a TRS may not directly or indirectly operate or manage any hotels or health care facilities or provide rights to any brand name under which any hotel or health care facility is operated. For this purpose, a health care facility means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a service provider which is eligible for participation in the Medicare program under title XVIII of the Social Security Act with respect to such facility.

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Mid-America and its subsidiary must jointly elect for the subsidiary to be treated as a TRS. A corporation of which a qualifying TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of Mid-America's assets may consist of securities of one or more TRSs, and no more than 25% of the value of its assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test.

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Rent that Mid-America receives from any TRS will qualify as rents from real property as long as at least 90% of the leased space in the property is leased to persons other than TRSs and related party tenants, and the amount paid by the TRS to rent space at the property is substantially comparable to rents paid by other tenants of the property for comparable space. The TRS rules limit the deductibility of interest paid or accrued by a TRS to Mid-America to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on transactions between a TRS and Mid-America or its tenants that are not conducted on an arm's-length basis. Mid-America does not currently have any TRSs, but it may acquire or form one or more TRSs in the future.

New Tax Legislation

On May 28, 2003, the President signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003. This new tax legislation reduces the maximum individual tax rate for long-term capital gains generally from 20% to 15% (for sales occurring after May 6, 2003 through December 31, 2008) and for dividends generally from 38.6% to 15% (for tax years from 2003 through 2008). Without future congressional action, the maximum tax rate on long-term capital gains will return to 20% in 2009, and the maximum rate on dividends will move to 35% in 2009 and 39.6% in 2011. Because Mid-America is not generally subject to federal income tax on the portion of its REIT taxable income or capital gains distributed to its shareholders, its dividends will generally not be eligible for the new 15% tax rate on dividends. As a result, Mid-America's ordinary REIT dividends will continue to be taxed at the higher tax rates applicable to ordinary income. However, the 15% tax rate for long-term capital gains and dividends will generally apply to:

- (1) long-term capital gains, if any, recognized on the disposition of Common Stock;
- (2) distributions designated as long-term capital gain dividends (except to the extent attributable to real estate depreciation, in which case such distributions would continue to be subject to a 25% tax rate);
- (3) dividends attributable to dividends received by Mid-America from non-REIT corporations, such as taxable REIT subsidiaries; and
- (4) dividends to the extent attributable to income upon which Mid-America has paid corporate income tax (e.g., to the extent that Mid-America distributes less than 100% of its taxable income).

PLAN OF DISTRIBUTION

Subject to the terms and conditions of a purchase agreement dated August 18, 2003, certain investment advisory clients of Cohen & Steers have agreed to purchase, and we have agreed to sell, the number of shares of common stock set forth on the cover of this prospectus supplement. Expenses of the offering are estimated to be \$20,000 and will be paid by us.

LEGAL MATTERS

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Bass, Berry & Sims PLC, Memphis, Tennessee, our counsel, will issue an opinion about the legality of the Common Stock.

EXPERTS

The consolidated financial statements and schedule of Mid-America Apartment Communities, Inc. as of December 31, 2002 and 2001 and for the three-year period ended December 31, 2002 have been incorporated by reference herein in reliance upon the reports of KPMG LLP, independent accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The Securities and Exchange Commission, or SEC, allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those

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documents. The information incorporated by reference is considered to be part of this prospectus supplement, and information that we subsequently file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below that were filed with the SEC under the Securities Exchange Act of 1934, as amended:

Annual Report on Form 10-K for the year ended December 31, 2002;

Quarterly Reports on Form 10-Q for the quarter ended March 31, 2003 and June 30, 2003;

Definitive proxy statement for our annual meeting of shareholders on June 2, 2003 and filed April 30, 2003; and

Current Reports on Form 8-K filed with the SEC on July 3, 2003, February 7, 2003, and January 21, 2003.

We also incorporate by reference each of the following documents that we file with the SEC after the date of this prospectus supplement but before the end of the Common Stock offering:

Reports filed under Sections 13(a) and (c) of the Exchange Act;

Definitive proxy or information statements filed under Section 14 of the Exchange Act in connection with any subsequent annual or special shareholders meeting; and

Any reports filed under Section 15(d) of the Exchange Act.

You may request a copy of any of the filings, at no cost, by writing or telephoning us at the following address:

Leslie Wolfgang, Corporate Secretary

Mid-America Apartment Communities, Inc.

6584 Poplar Avenue, Suite 300

Memphis, Tennessee 38138

(901) 682-6600

WHERE YOU CAN FIND MORE INFORMATION

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You may read and copy any material that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also access our SEC filings over the Internet at the SEC's site at <http://www.sec.gov>.

FORWARD-LOOKING STATEMENTS

Statements contained in this prospectus supplement and the accompanying prospectus, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Also, when we use any of the words believe, expect, anticipate, intend, plan, estimate, or similar expressions, we are making forward-looking statements. In part, we have based these forward-looking statements on possible or assumed future results of our operations. These are forward-looking statements and not guaranteed. They are based on our present intentions and on our present expectations and assumptions. These statements, intentions, expectations and assumptions involve risks and uncertainties, some of which are beyond our control, that could cause actual results or events to differ materially from those we anticipate or project. These risks include those described under Risk Factors in the accompanying prospectus and in our filings with the SEC. Prospective purchasers should not place undue reliance on these forward-looking statements, as events described or implied in such statements may not occur. We undertake no obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise.

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PROSPECTUS

**MID-AMERICA APARTMENT
COMMUNITIES, INC.**

BY THIS PROSPECTUS, WE MAY OFFER

Debt Securities

Preferred Stock

Common Stock

Depositary Shares

We will provide specific terms of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest. This prospectus may not be used to consummate sales of these securities unless accompanied by a prospectus supplement.

THE NEW YORK STOCK EXCHANGE LISTS OUR

Common Stock (symbol: MAA)

9.5% Series A Cumulative Preferred Stock (symbol: MAA PrA)

8 ⁷/₈% Series B Cumulative Preferred Stock (symbol: MAA PrB); and

9 ³/₈% Series C Cumulative Redeemable Preferred Stock (symbol: MAA PrC).

To ensure that we qualify as a REIT, no person may own more than 9.9% of the total value of our outstanding capital stock, unless our Board of Directors waives this limitation.

See **Risk Factors** beginning on page 5 for information that should be considered by prospective investors.

These securities have not been approved by the SEC or any state securities commission. None of these organizations has determined that this Prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This Prospectus is dated September 9, 1998

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SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. To understand the terms of our securities, you should carefully read this document and the prospectus supplement that gives the specific terms of the securities we are offering. You should also read the documents we have referred to in "Where You Can Find More Information" on page 4 for information on our company and our financial statements.

Mid-America Apartment Communities, Inc.

We are a Memphis, Tennessee-based REIT. As of June 30, 1998, we owned and operated 120 apartment communities containing 31,791 apartment units in 13 states. We also manage but do not own 43 properties containing 5,387 apartment units.

In November 1997, we acquired Flournoy Development Company, a privately held company and as a result:

acquired 30 apartment communities containing 8,641 apartment units, including 950 units under development; and increased our ability to build our own apartment communities rather than acquiring existing apartment communities or relying on third party developers.

We own, manage, develop and build apartment communities appealing to middle and upper income residents primarily in mid-size cities in the southeastern United States and Texas. Approximately 71% of our apartment units are located in Tennessee, Georgia, Florida and Texas markets. Our 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 and management to raise occupancy levels and per unit average rentals.

We operate in an umbrella partnership REIT structure. In this structure, properties are owned and operated by one or more operating partnerships in which the REIT is general partner and owns a substantial interest. The remaining partnership interests are owned by investors who have the right to redeem their partnership interests for common shares in the REIT or, at the REIT's option, for cash. Our primary operating partnership is Mid-America Apartments, L.P. Most of our operations are conducted through Mid-America Apartments, L.P. Common units of limited partnership interest in Mid-America Apartments, L.P. are redeemable for our common stock on a one-for-one basis or, at our option, for cash.

As of June 30, 1998, our executive officers and directors owned approximately 18% of our combined outstanding common stock and common units of limited partnership interest in Mid-America Apartments, L.P. We use stock-based and other incentive compensation plans to motivate employees to meet long-term management goals that are consistent with creating value for our shareholders.

Our principal executive offices are located at 6584 Poplar Avenue, Suite 300, Memphis, Tennessee 38138 and our telephone number is (901) 682-6600.

The Securities We May Offer

We may offer up to \$231,518,187 of any of the following securities either separately or in units: debt, preferred stock, common stock, and depositary shares. The Prospectus Supplement will describe the specific amounts, prices and terms of these securities.

Debt Securities

We may offer our unsecured general obligations in the form of either senior or subordinated debt. Senior debt includes our notes, debt, and guarantees, which are for money borrowed and are not subordinated.

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Subordinated debt, designated at the time it is issued, is entitled to interest and principal payments after the senior debt payments.

The senior and subordinated debt will be issued under an indenture between the company and a trustee, a U.S banking institution. We have summarized the general features of the debt from the indenture. We encourage you to read the indenture which is an exhibit to our registration statement No. 333-60285, our recent annual reports on Form 10-K and our recent quarterly reports on Form 10-Q. Direction on how you can get copies are provided in [Where You Can Find More Information](#) below.

General Indenture Provisions That Apply To Senior And Subordinated Debt

The indenture does not limit the amount of debt that we may issue nor does it provide holders any protection should there be a highly leveraged transaction involving our company.

If we redeem debt which is convertible into our capital stock, your right to convert that debt into our capital stock will expire on the redemption date.

The indenture allows us to merge or consolidate with another company, or sell all or substantially all of our assets to another company. If these events occur, the other company will be required to assume our responsibilities on the debt, and we will be released from all liabilities and obligations.

The indenture provides that holders of a majority of the total principal amount of the debt outstanding in any series may vote to change our obligations or your rights concerning the debt. But to change the payment of principal or interest, every holder in that series must consent.

We may discharge the indenture at any time by depositing sufficient funds with the Trustee to pay the obligations when due. All amounts due to you on the debt would be paid by the Trustee from the deposited funds.

If we fail to meet our obligations on the debt, the Indenture gives you the following remedy:

Event of Default

Principal not paid when due

Sinking fund payment not made when due

Failure to pay interest for 30 days

Covenants not performed for 60 days

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Acceleration of at least \$10,000,000 in principal amount of other debt not rescinded

Any other event of default in the indenture

Remedy

Trustee or holders of 25% of the principal amount outstanding in a series may declare principal immediately payable. However, the holders of 25% of the principal amount may rescind this action.

Preferred Stock

We may issue preferred stock in one or more series and will determine the dividend, voting, and conversion rights and other provisions at the time of sale. We may also issue fractional shares of preferred stock that will be represented by depositary shares and receipts.

Common Stock

Common Stock holders are entitled to receive dividends declared by the Board of Directors (subject to rights of Preferred Stock holders). Each holder of Common Stock is entitled to one vote per share. The holders of Common Stock have no preemptive rights or cumulative voting rights.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy documents at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below. We also incorporate all future filings made with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until we have sold all of the securities.

Annual Report on Form 10-K for the year ended December 31, 1997, as amended by Forms 10-K/A filed with the SEC on April 2, 1998 and April 27, 1998;

Quarterly Report on Form 10-Q for the quarter ended June 30, 1998;

Current Reports on Form 8-K filed with the SEC on February 19, 1998, March 13, 1998, April 30, 1998, May 26, 1998, June 12, 1998 (2 filed), June 16, 1998, June 24, 1998, June 29, 1998, July 1, 1998, and July 28, 1998;

Amended Current Reports on Form 8-K/A filed with the SEC on February 5, 1998, May 26, 1998, July 30, 1998 and August 12, 1998;

Proxy Statement for the Company's 1998 Annual Meeting of Shareholders filed with the SEC on April 30, 1998;

the description of the Company's common stock contained in Form 8-A filed with the SEC on December 14, 1993;

the description of the Company's 9.5% Series A Cumulative Preferred Stock contained in Form 8-A/A filed with the SEC on October 11, 1996;

the description of the Company's 8/8% Series B Cumulative Preferred Stock contained in Form 8-A/A filed with the SEC on November 19, 1997; and

the description of the Company's 9/8% Series C Cumulative Redeemable Preferred Stock contained in Form 8-A/A filed with the SEC on June 26, 1998.

You may request a copy of these filings at no cost, by writing or telephoning us at the following address: Corporate Secretary, Mid-America Apartment Communities, Inc., 6584 Poplar Avenue, Suite 340, Memphis, Tennessee 38138, (901) 682-6600.

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You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with different information. We are making offers of these securities only in states where the offer is permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Over the next two years, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of \$231,518,781. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will describe the securities being offered and the terms of that offering. The prospectus supplement may also add to, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement.

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RISK FACTORS

Before you invest in our securities, you should be aware that your investment is subject to various risks, including those described below. You should consider carefully these risks together with all of the other information included in this Prospectus before you decide to purchase any of our securities.

Some of the information in this Prospectus or any Prospectus Supplement may contain forward-looking statements. Such statements can be identified by the use of forward-looking words such as may, will, expect, anticipate, estimate, continue or other similar words. These statements discuss future expectations or contain projections. When considering such forward-looking statement, you should keep in mind the following risk factors. The risk factors could cause our actual results to differ materially from those contained in any forward-looking statement.

Our Development Activities May Be More Costly Than Anticipated.

We have increased our financial and management commitment to the development and construction of new apartment communities in addition to purchasing existing apartment communities. In connection with development and construction of an apartment community, we run the risk that:

construction costs will exceed our budget;

the newly completed apartment community will not generate the profits we anticipate; and

we can not obtain all necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations.

Any of these events could adversely affect the return on our investment in developed apartment communities and could require us to use cash reserves or cash flows from other apartment communities to cover shortfalls, which could prevent us from making expected distributions.

Our Ability To Make Distributions May Be Adversely Affected By Factors Beyond Our Control.

Our ability to make distributions to you depends on our ability to generate funds from operations in excess of scheduled principal payments on debt and capital expenditure requirements. Funds from operations and the value of our properties may be less because of factors which are beyond our control. Such events or conditions could include:

competition from other apartment communities;

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overbuilding of new apartment units in our markets, which might adversely affect apartment occupancy or rental rates;

increases in operating costs (including real estate taxes) due to inflation and other factors, which may not be offset by increased rents;

our inability to rent properties 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;

changes in interest rate levels and the availability of financing, which could lead renters to purchase homes (if interest rates drop and home loans are available more readily) or increase our acquisition and operating costs (if interest rates increase and financing is less readily available); and

the relative illiquidity of real estate investments.

any decline in our funds from operations or property values because of these factors which are beyond our control could adversely affect our ability to make distributions to you.

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High Debt Level May Affect Overall Operating Results.

We currently have a substantial amount of debt. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate the apartment communities or pay distributions required to be paid in order for us to maintain our qualification as a REIT. We intend to keep our total debt below 60% of the undepreciated book value of our assets, although our charter and bylaws do not limit our debt levels. Circumstances may cause us to exceed that target from time to time. As of June 30, 1998, our ratio of debt to undepreciated book value was approximately 50%. Our Board of Directors can modify this policy at any time which could allow us to become more highly leveraged and decrease our ability to make distributions to our shareholders. Currently, our operating cash flow is insufficient to finance our development activities. Therefore, we will have to borrow more money to pay for our development activities.

Variable Interest Rates May Prevent Us From Making Distributions.

At June 30, 1998, \$78 million of our debt bore interest at a variable rate. In addition, we 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 our cash flow and the amounts available to pay distributions to shareholders.

Noncompliance With Government Regulations May Affect Operating Results.

Environmental Matters

Phase I environmental site assessments have been obtained on all of our apartment communities. The purpose of Phase I environmental site assessments is to identify potential sources of contamination for which we may be responsible and to assess the status of environmental regulatory compliance. The phase I environmental site assessments did not reveal any environmental condition, liability or compliance concern that we believe would have a material adverse effect on our business, assets or results of operations, nor are we aware of any such condition, liability or concern by any other means. However, it is possible that the environmental site assessments relating to any one of the properties did not reveal all environmental conditions, liabilities or compliance concerns. It is also possible that there are material environmental conditions, liabilities or compliance concerns that arose at a property after the related review was completed. If environmental contamination exists or existed at an apartment community, we may be liable for the costs of removal or remediation of the contamination and may be liable for personal injury or similar claims by private plaintiffs. Moreover, the existence of an environmental contamination at an apartment community could adversely affect the occupancy of the apartment community and our ability to sell or borrow against that apartment community.

Americans With Disabilities Act Compliance

Under the Americans with Disabilities Act of 1990 (the ADA), all public accommodations and commercial facilities must meet certain Federal requirements related to access and use by disabled persons. Compliance with the ADA requirements could require removal of access barriers, and non-compliance could result in the U.S. government imposing fines or private litigants winning damages. The ADA does not consider apartment communities to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as a leasing office, are open to the public. We believe that our properties are substantially in compliance with these requirements.

Fair Housing Amendments Act Compliance

The Fair Housing Amendments Act of 1988 (the FHA) requires apartment communities first occupied after March 13, 1990 to be accessible to the handicapped. Non-compliance with the FHA could result in the U.S. government imposing fines or private litigants winning damages. We believe that our properties are substantially in compliance with these requirements.

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Consequences Of The Failure To Qualify As A REIT

We believe that we operate in a manner that enables us to meet the requirements for qualification as a REIT for Federal income tax purposes. We have not requested, and do not plan to request, a ruling from the Internal Revenue Service that we qualify as a REIT. We have, however, received an opinion from the law firm of Baker, Donelson, Bearman & Caldwell that we met the requirements for qualification as a REIT for the taxable years ended December 31, 1994 through 1997, and that we are in a position to continue such qualification. You should be aware that opinions of counsel are not binding on the IRS or any court. Furthermore, the conclusions stated in the opinion are conditioned on, and our continued qualification as a REIT will depend on, our meeting various requirements.

If we fail to qualify as a REIT, we would not be allowed a deduction for distributions to shareholders in computing our taxable income and would be required to pay substantial federal and state income taxes. We also could be subject to the Federal alternative minimum tax. Therefore, if we lose our REIT status, the funds available for distribution to you would be reduced substantially for each of the years involved. Unless we were entitled to relief under specific statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

Possible Adverse Consequences Of Limits On Ownership Of Shares

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 our 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, 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 Internal Revenue 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 the benefit of the Company; 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 paid by the person to whom you sell the shares; or

(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.

Ability Of Board Of Directors To Change Certain Policies

Our major policies, including our policies with respect to acquisitions, financing, growth, operations, debt capitalization and distributions, will be determined by the Board of Directors. The Board of Directors may amend or revise these policies from time to time without your consent, which could affect our ability to make distributions.

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Provisions Of Our Charter And Tennessee Law May Limit The Ability Of A Third Party To Acquire Control Of The Company.

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 million 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:

2,000,000 shares of 9.5% Series A Cumulative Preferred Stock;

1,938,830 shares of 8⁷/₈% Series B Cumulative Preferred Stock; and

2,000,000 shares of 9³/₈% Series C 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.

USE OF PROCEEDS

Unless otherwise described in a prospectus supplement, we will contribute the net proceeds of any sale of the offered securities to Mid-America Apartments, L.P. in exchange for units of limited partnership interests having characteristics similar to those of the offered securities. Mid-America Apartments, L.P. will use the net proceeds for general purposes, which may include the acquisition or development of apartment communities, the improvement of our apartment communities and the repayment of debt.

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**CONSOLIDATED RATIO OF EARNINGS TO COMBINED
FIXED CHARGES AND PREFERRED STOCK DISTRIBUTIONS AND
CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES**

The consolidated ratio of earnings to combined fixed charges and preferred stock distributions for each of the periods indicated is as follows:

	YEAR ENDED DECEMBER 31,					Six Months Ended June 30,
	1993	1994	1995	1996	1997	1998
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Distributions	1.32x	1.82x	1.50x	1.52x	1.45x	1.28x
Ratio of Earnings to Fixed Charges	1.32x	1.82x	1.50x	1.57x	1.70x	1.51x

For the purpose of calculating the consolidated ratio of earnings to combined fixed charges and preferred stock distributions and the consolidated ratio of earnings to fixed charges, earnings consist of net income (loss) before gain on disposition of properties, extraordinary items and allocation to minority interests, plus fixed charges less capitalized interest. Fixed charges consist of interest expense, capitalized interest and amortization of deferred financing costs. Prior to 1996, we had not issued any Preferred Stock; therefore, for the years prior to 1996 the ratios of earnings to combined fixed charges and preferred stock distributions and the ratios of earnings to fixed charges are the same.

DESCRIPTION OF CAPITAL STOCK

The summary of the terms of the shares of the capital stock of Mid-America Apartment Communities, Inc. (the Company) set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to the Amended and Restated Charter of the Company as further amended, and the Amended and Restated Bylaws of the Company, both of which may be further amended from time to time and both of which are incorporated herein by reference. References to the TBCA are to the Tennessee Business Corporation Act, as amended.

General

The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock and 20,000,000 shares of Preferred Stock. Each outstanding share of Common Stock entitles the holder to one vote on all matters presented to shareholders for a vote.

Common Stock

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Subject to such preferential rights granted by the Board of Directors in connection with the issuance of the Company's 9.5% Series A Cumulative Preferred Stock (the Series A Preferred Stock), 7.8% Series B Cumulative Preferred Stock (the Series B Preferred Stock), 7.8% Series C Cumulative Redeemable Preferred Stock (the Series C Preferred Stock), and preferential rights as may be granted by the Board of Directors in connection with the future issuances of Preferred Stock, holders of shares of Common Stock are entitled to one vote per share on all matters to be voted on by shareholders and are entitled to receive ratably such dividends as may be declared in respect of the Common Stock by the Board of Directors in its discretion from funds legally available therefor. In the event of the liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share ratably in all assets remaining after payment of all debts and other liabilities and any liquidation preference of the holders of the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock and other shares of Preferred Stock which may be issued in the future. Holders of Common Stock have no subscription, redemption, conversion or preemptive rights. Matters submitted for shareholder approval generally require a majority vote of the shares present and voting thereon. The outstanding shares of Common Stock are fully paid and nonassessable.

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Preferred Stock

The following description of the terms of the Preferred Stock sets forth general terms and provisions of the Preferred Stock to which a Prospectus Supplement may relate. Specific terms of any series of Preferred Stock offered by a Prospectus Supplement will be described in that Prospectus Supplement. The description set forth below is subject to and qualified in its entirety by reference to the Articles of Amendment to the Charter fixing the preferences, limitations and relative rights of a particular series of Preferred Stock.

General

Under the Charter, the Board of Directors of the Company is authorized, without further shareholder action, to provide for the issuance of up to 20,000,000 shares of Preferred Stock, in such series, with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or other provisions, as may be fixed by the Board of Directors. As a result, the Board of Directors may afford the holders of any series or class of Preferred Stock preferences, powers, and rights, voting or otherwise, senior to the rights of holders of Common Stock.

The Preferred Stock will have the dividend, liquidation, redemption, conversion and voting rights set forth below unless otherwise provided in the Prospectus Supplement relating to a particular series of Preferred Stock. Reference is made to the Prospectus Supplement relating to the particular series of Preferred Stock offered thereby for specific terms, including: (i) the title and liquidation preference per share of such Preferred Stock and the number of shares offered; (ii) the price at which such series will be issued; (iii) the dividend rate (or method of calculation), the dates on which dividends shall be payable and the dates from which dividends shall commence to accumulate; (iv) any redemption or sinking fund provisions of such series; (v) any conversion provisions of such series; and (vi) any additional dividend, liquidation, redemption, sinking fund and other rights, preferences, privileges, limitations and restrictions of such series.

The Preferred Stock will, when issued, be fully paid and nonassessable. Unless otherwise specified in the Prospectus Supplement relating to a particular series of Preferred Stock, each series will rank on a parity as to dividends and distributions in the event of a liquidation with each other series of Preferred Stock and, in all cases, will be senior to the Common Stock.

Dividend Rights

Holders of Preferred Stock of each series will be entitled to receive, when, as and if declared by the Board of Directors, out of assets of the Company legally available therefor, cash dividends at such rates and on such dates as are set forth in the Prospectus Supplement relating to such series of Preferred Stock. Such rate may be fixed or variable or both and may be cumulative, noncumulative or partially cumulative.

If the applicable Prospectus Supplement so provides, as long as any shares of Preferred Stock are outstanding, no dividends will be declared or paid or any distributions be made on the Common Stock, other than a dividend payable in Common Stock, unless the accrued dividends on each series of Preferred Stock have been fully paid or declared and set apart for payment and the Company will have set apart all amounts, if any, required to be set apart for all sinking funds, if any, for each series of Preferred Stock.

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If the applicable Prospectus Supplement so provides, when dividends are not paid in full upon any series of Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with such series of Preferred Stock, all dividends declared upon such series of Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends will be declared pro rata so that the amount of dividends declared per share on such series of Preferred Stock and such other series will in all cases bear to each other the same ratio that accrued dividends per share on such series of Preferred Stock and such other series bear to each other.

Each series of Preferred Stock will be entitled to dividends as described in the Prospectus Supplement relating to such series, which may be based upon one or more methods of determination. Different series of

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Preferred Stock may be entitled to dividends at different dividend rates or based upon different methods of determination. Except as provided in the applicable Prospectus Supplement, no series of Preferred Stock will be entitled to participate in the earnings or assets of the Company.

Rights Upon Liquidation

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of each series of Preferred Stock will be entitled to receive out of the assets of the Company available for distribution to shareholders the amount stated or determined on the basis set forth in the Prospectus Supplement relating to such series, which may include accrued dividends, if such liquidation, dissolution or winding up is involuntary or may equal the current redemption price per share (otherwise than for the sinking fund, if any provided for such series) provided for such series set forth in such Prospectus Supplement, if such liquidation, dissolution or winding up is voluntary, and on such preferential basis as is set forth in such Prospectus Supplement. If, upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the amounts payable with respect to Preferred Stock of any series and any other shares of stock of the Company ranking as to any such distribution on a parity with such series of Preferred Stock are not paid in full, the holders of Preferred Stock of such series and of such other shares will share ratably in any such distribution of assets of the Company in proportion to the full respective preferential amounts to which they are entitled or on such other basis as is set forth in the applicable Prospectus Supplement. The rights, if any, of the holders of any series of Preferred Stock to participate in the assets of the Company remaining after the holders of other series of Preferred Stock have been paid their respective specified liquidation preferences upon any liquidation, dissolution or winding up of the Company will be described in the Prospectus Supplement relating to such series.

Redemption

A series of Preferred Stock may be redeemable, in whole or in part, at the option of the Company, and may be subject to mandatory redemption pursuant to a sinking fund, in each case upon terms, at the times, the redemption prices and for the types of consideration set forth in the Prospectus Supplement relating to such series. The Prospectus Supplement relating to a series of Preferred Stock which is subject to mandatory redemption shall specify the number of shares of such series that shall be redeemed by the Company in each year commencing after a date to be specified, at a redemption price per share to be specified, together with an amount equal to any accrued and unpaid dividends thereon to the date of redemption.

If, after giving notice of redemption to the holders of a series of Preferred Stock, the Company deposits with a designated bank funds sufficient to redeem such Preferred Stock, then from and after such deposit, all shares called for redemption will no longer be outstanding for any purpose, other than the right to receive the redemption price and the right to convert such shares into other classes of stock of the Company. The redemption price will be stated in the Prospectus Supplement relating to a particular series of Preferred Stock.

Except as indicated in the applicable Prospectus Supplement, the Preferred Stock is not subject to any mandatory redemption at the option of the holder.

Sinking Fund

The Prospectus Supplement for any series of Preferred Stock will state the terms, if any, of a sinking fund for the purchase or redemption of that series.

Conversion And Preemptive Rights

The Prospectus Supplement for any series of Preferred Stock will state the terms, if any, on which shares of that series are convertible into or redeemable for shares of Common Stock or another series of Preferred Stock. The Preferred Stock will have no preemptive rights.

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Voting Rights

Except as indicated in the Prospectus Supplement relating to a particular series of Preferred Stock, or except as expressly required by Tennessee law, a holder of Preferred Stock will not be entitled to vote. Except as indicated in the Prospectus Supplement relating to a particular series of Preferred Stock, in the event the Company issues full shares of any series of Preferred Stock, each such share will be entitled to one vote on matters on which holders of such series of Preferred Stock are entitled to vote.

Under Tennessee law, the affirmative vote of the holders of a majority of the outstanding shares of all series of Preferred Stock entitled to vote, voting as a separate voting group, or of all outstanding votes of all series of Preferred Stock equally affected, as a voting group, will be required for (i) the authorization of any class of stock ranking prior to or on a parity with Preferred Stock or the increase in the number of authorized shares of any such stock, (ii) any increase in the number of authorized shares of Preferred Stock and (iii) certain amendments to the Charter that may be adverse to the rights of Preferred Stock outstanding.

The Series A Preferred Stock

Maturity

The Series A Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption.

Rank

The Series A Preferred Stock, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, ranks (i) senior to all classes or series of Common Stock, and to all equity securities ranking junior to the Series A Preferred Stock, (ii) on parity with all equity securities issued by the Company the terms of which specifically provide that such equity securities rank on a parity with the Series A Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Company (including the Series B Preferred Stock and the Series C Preferred Stock), and (iii) junior to all existing and future indebtedness of the Company.

Dividends

Holders of the Series A Preferred Stock are entitled to receive, when and as declared by the Board of Directors (or a duly authorized committee thereof), out of funds legally available for the payment of dividends, preferential cumulative cash distributions at the rate of 9.5% per annum of the \$25 liquidation preference per share (equivalent to a fixed annual amount of \$2.375 per share).

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the holders of shares of Series A Preferred Stock are entitled to be paid out of the assets of the Company legally available for distribution to its shareholders a liquidation preference of \$25 per share, plus an amount equal to any accrued and unpaid distributions to the date of payment, but without interest, before any distribution of assets is made to holders of Common Stock or any other class or series of capital stock of the Company that ranks junior to the Series A Preferred Stock as to liquidation rights.

Redemption

Except in certain circumstances relating to the preservation of the Company's status as a REIT, the Series A Preferred Stock is not redeemable prior to November 1, 2001. On and after such date, the Series A Preferred

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Stock will be redeemable for cash at the option of the Company, in whole or in part, at a redemption price of \$25 per share, plus distributions accrued and unpaid to the redemption date (whether or not declared) without interest.

Voting Rights

Holders of Series A Preferred Stock generally will have no voting rights except as required by law. However, whenever distributions on any shares of Series A Preferred Stock shall be in arrears for 18 or more months, the holders of such shares (voting separately as a class with all other series of parity preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors of the Company until all distributions accumulated on such shares of Series A Preferred Stock have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, certain changes to the terms of the Series A Preferred Stock that would be materially adverse to the rights of holders of the Series A Preferred Stock cannot be made without the affirmative vote of the holders of at least two-thirds of the outstanding Series A Preferred Stock.

Conversion

The Series A Preferred Stock is not convertible into or exchangeable for any other property or securities of the Company.

The Series B Preferred Stock

Maturity

The Series B Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption.

Rank

The Series B Preferred Stock, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, ranks (i) senior to all classes or series of Common Stock of the Company, and to all equity securities ranking junior to the Series B Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Company; (ii) on a parity with the equity securities of the Company ranking in parity with the Series B Preferred Stock (including the Series A Preferred Stock and Series C Preferred Stock); and (iii) junior to all existing and future indebtedness of the Company.

Dividends

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Holders of shares of the Series B Preferred Stock are entitled to receive, when and as declared by the Board of Directors (or a duly authorized committee thereof), out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 8 ⁷/₈% per annum of the \$25 liquidation preference per share (equivalent to a fixed annual amount of \$2.21875 per share).

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the holders of shares of Series B Preferred Stock are entitled to be paid out of the assets of the Company legally available for distribution to its shareholders a liquidation preference of \$25 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, but without interest, before any distribution of assets is made to holders of Common Stock or any other class or series of capital stock of the Company that ranks junior to the Series B Preferred Stock as to liquidation rights.

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Redemption

Except in certain circumstances relating to the preservation of the Company's status as a REIT, the Series B Preferred Stock is not redeemable prior to December 1, 2002. On and after such date, the Series B Preferred Stock will be redeemable for cash at the option of the Company, in whole or in part, at a redemption price of \$25 per share, plus distributions accrued and unpaid to the redemption date (whether or not declared) without interest.

Voting Rights

Holdings of Series B Preferred Stock generally will have no voting rights except as required by law. However, whenever distributions on any shares of Series B Preferred Stock shall be in arrears for 18 or more months, the holders of such shares (voting separately as a class with all other series of parity preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors of the Company until all distributions accumulated on such shares of Series B Preferred Stock have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, certain changes to the terms of the Series B Preferred Stock that would be materially adverse to the rights of holders of the Series B Preferred Stock cannot be made without the affirmative vote of the holders of at least two-thirds of the outstanding Series B Preferred Stock.

Conversion

The Series B Preferred Stock is not convertible into or exchangeable for any other property or securities of the Company.

The Series C Preferred Stock

Maturity

The Series C Preferred Stock has no stated maturity and is not subject to any sinking fund or mandatory redemption.

Rank

The Series C Preferred Stock, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, ranks (i) senior to all classes or series of Common Stock of the Company, and to all equity securities ranking junior to the Series C Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of the Company; (ii) on a parity with the equity securities of the Company ranking in parity with the Series C Preferred Stock (including the Series A Preferred Stock and the Series B Preferred Stock); and (iii) junior to all existing and future indebtedness of the Company.

Dividends

Holders of shares of the Series C Preferred Stock are entitled to receive, when and as declared by the Board of Directors (or a duly authorized committee thereof), out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 9³/₈% per annum of the \$25 liquidation preference per share (equivalent to a fixed annual amount of \$2.34375 per share).

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the holders of shares of Series C Preferred Stock are entitled to be paid out of the assets of the Company legally

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available for distribution to its shareholders a liquidation preference of \$25 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, but without interest, before any distribution of assets is made to holders of Common Stock or any other class or series of capital stock of the Company that ranks junior to the Series C Preferred Stock as to liquidation rights.

Redemption

Except in certain circumstances relating to the preservation of the Company's status as a REIT, the Series C Preferred Stock is not redeemable prior to June 30, 2003. On and after such date, the Series C Preferred Stock will be redeemable for cash at the option of the Company, in whole or in part, at a redemption price of \$25 per share, plus distributions accrued and unpaid to the redemption date (whether or not declared) without interest. The redemption price (other than the portion thereof consisting of accrued and unpaid dividends) will be payable solely out of proceeds of the sale of other capital stock of the Company, which may include other series of the Company's Preferred Stock, and from no other source.

Voting Rights

Holders of Series C Preferred Stock generally will have no voting rights except as required by law. However, whenever distributions on any shares of Series C Preferred Stock shall be in arrears for 18 or more months, the holders of such shares (voting separately as a class with all other series of parity preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors of the Company until all distributions accumulated on such shares of Series C Preferred Stock have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, certain changes to the terms of the Series C Preferred Stock that would be materially adverse to the rights of holders of the Series C Preferred Stock cannot be made without the affirmative vote of the holders of at least two-thirds of the outstanding Series C Preferred Stock.

Conversion

The Series C Preferred Stock is not convertible into or exchangeable for any other property or securities of the Company.

Charter And Bylaw Provisions

Shareholders' rights and related matters are governed by the TBCA, the Company's Charter and its Bylaws. Certain provisions of the Charter and Bylaws of the Company, which are summarized below, may make it more difficult to change the composition of the Board of Directors and may discourage or make more difficult any attempt by a person or group to obtain control of the Company.

Voting Requirement

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The Company's Charter may not be amended without the affirmative vote of at least a majority of the shares entitled to vote generally in the election of directors, voting as a single voting group. The Company's Bylaws may be amended by either the affirmative vote of a majority of all shares outstanding and entitled to vote generally in the election of directors, voting as a single group, or by an affirmative vote of a majority of the Board of Directors then holding office, unless the shareholders prescribe that any such bylaw may not be amended or repealed by the Board of Directors. Notwithstanding the foregoing, the Company cannot take any action intended to terminate its qualification as a REIT without the affirmative vote of at least two-thirds of the outstanding shares of Common Stock.

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Special Meetings

Under the Company's Bylaws, special meetings of the shareholders may be called by shareholders only if such shareholders hold outstanding shares representing more than 50% of all votes entitled to be cast on any issue proposed to be considered at any such special meeting.

Staggered Board Of Directors

The Company's Board of Directors is divided into three classes of directors serving staggered three year terms. A majority of the directors must be persons who are not officers of the Company. The requirements for a majority of independent directors and the provisions for staggered terms of directors may not be changed without approval of a majority of the shareholders or by 80% of the members of the Board of Directors. Certain provisions of the Company's Charter, including the use of a staggered board, may render more difficult a change in control of the Company or removal of incumbent management.

Advance Notice Of Director Nominations And New Business

The Bylaws of the Company provide that with respect to an annual meeting of shareholders, the proposal of business to be considered by shareholders may be made only (i) by or at the direction of the Board of Directors, or (ii) by a shareholder who has complied with the advance notice procedures set forth in the Bylaws. In addition, with respect to any meeting of shareholders, nominations of persons for election to the Board of Directors may be made only (x) by or at the direction of the Board of Directors or (y) by any shareholder of the Company who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in the Bylaws.

The advance notice provisions of the Bylaws could have the effect of discouraging a takeover or other transaction in which holders of some, or a majority, of the shares of Common Stock might receive a premium for their shares over the then prevailing market price or which such holders might believe to be otherwise in their best interests.

Limitation Of Directors Liability

The Company's Charter eliminates, subject to certain exceptions, the personal liability of a director to the Company or its shareholders for monetary damages for breaches of such director's duty of care or other duties as a director. The Charter does not provide for the elimination of or any limitation on the personal liability of a director for (i) any breach of a director's duty of loyalty to the Company, (ii) acts or omissions which involve intentional misconduct or knowing violations of law, (iii) unlawful corporate distributions, or (iv) acts or omissions which involve transactions from which the director derived an improper personal benefit. The Charter of the Company further provides that if the TBCA is amended to authorize corporate action further eliminating or limiting the personal liability of a director of the Company shall be eliminated or limited to the fullest extent permitted by the TBCA, as amended. These provisions of the Charter will limit the remedies available to a shareholder in the event of breaches of any director's duties to such shareholder of the Company.

Tennessee Anti-Takeover Statutes

In addition to certain of the Company's Charter provisions discussed above, Tennessee has adopted a series of statutes which can have an anti-takeover effect and may delay or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in a premium over the market price for the Common Stock.

Under the Tennessee Investor Protection Act, unless a company's board of directors has recommended a takeover offer to shareholders no offeror beneficially owning 5% or more of any class of equity securities of the offeree company, any of which was purchased within one year prior to the proposed takeover offer (unless the

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offeror, before making such purchase, has made a public announcement of his intention with respect to changing or influencing the management or control of the offeree company, has made a full, fair and effective disclosure of such intention to the person from whom he intends to acquire such securities and has filed with the Tennessee Commissioner of Commerce and Insurance (the Commissioner) and the offeree company a statement signifying such intentions and containing such additional information as the Commissioner by rule prescribes), may offer to acquire any class of equity security of an offeree company pursuant to a tender offer if after the acquisition thereof the offeror would be directly or indirectly a beneficial owner of more than 10% of any class of outstanding equity securities of the company (a Takeover Offer). Such an offeror must provide that any equity securities of an offeree company deposited or tendered pursuant to a Takeover Offer may be withdrawn by an offeree at any time within seven days from the date the offer has become effective following filing with the Commissioner and the offeree company and public announcement of the terms or after 60 days from the date the offer has become effective. If an offeror makes a Takeover Offer for less than all the outstanding equity securities of any class, and if the number of securities tendered is greater than the number the offeror has offered to accept and make for, the securities shall be accepted pro rata. If an offeror varies the terms of a Takeover Offer before its expiration date by increasing the consideration offered to offeree, the offeror shall make the increased consideration for all equity securities accepted, whether accepted before or after the variation in the terms of the offer.

Under the Tennessee Business Combination Act, subject to certain exceptions, no Tennessee corporation may engage in any business combination with an interested shareholder for a period of five years following the date that such shareholder became an interested shareholder unless prior to such date the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder.

A business combination is defined by the Tennessee Business Combination Act as any (i) merger or consolidation; (ii) share exchange; (iii) sale, lease, exchange, mortgage, pledge or other transfer of assets representing 10% of more of (A) the aggregate market value of the corporation's consolidated assets, (B) the aggregate market value of the corporation's shares, or (C) the corporation's consolidated net income; (iv) issuance or transfer of shares from the corporation to the interested shareholder, (v) plan of liquidation of dissolution proposed by the interested shareholder, (vi) transaction or recapitalization which increases the proportionate share of any outstanding voting securities owned or controlled by the interested shareholder, or (vii) financing arrangement whereby any interested shareholder receives, directly or indirectly, a benefit except proportionately as a shareholder.

An Interested shareholder is defined as (i) any person that is the beneficial owner of 10% or more of the voting power of any class or series of outstanding voting stock of the corporation or (ii) an affiliate or associate of the corporation who at any time within the five-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of any class or series of the outstanding stock of the corporation. Consummation of a business combination that is subject to the five-year moratorium is permitted after such period when the transaction (a) (i) complies with all applicable charter and bylaw requirements and (ii) is approved by the holders of two-thirds of the voting stock not beneficially owned by the interested shareholder, and (b) meets certain fair price criteria.

The Tennessee Greenmail Act prohibits a Tennessee corporation from purchasing, directly or indirectly, any of its shares at a price above the market value of such shares (defined as the average of the highest and lowest closing market price for such shares during the 30 trading days preceding the purchase and sale or preceding the commencement or announcement of a tender offer if the seller of such shares has commenced a tender offer or announced an intention to seek control of the corporation) from any person who holds more than 3% of the class of securities to be purchased if such person has held such shares for less than two years, unless the purchase has been approved by the affirmative vote of a majority of the outstanding shares of each class of voting stock issued by such corporation or the corporation makes an offer, of at least equal value per share, to all holders of shares of such class.

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Ownership Limitations

For the Company to qualify as a REIT under the Code, among other things, no more than 50% in value of its outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer shareholders (as defined in the Code to include certain entities) during the last half of a taxable year, and such capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. To ensure that the Company continues to meet the requirements for qualification as a REIT, the Company's Charter, subject to certain exceptions, provides that no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, shares of the Company's capital stock in excess of the Ownership Limit. The Board of Directors may waive the Ownership Limit with respect to a shareholder if evidence satisfactory to the Board of Directors and the Company's tax counsel is presented that the changes in ownership will not then or in the future jeopardize the Company's status as a REIT. Any transfer of capital stock or any security convertible into capital stock that would result in a direct or indirect ownership of capital stock by a shareholder in excess of the Ownership Limit or that would result in the failure of the Company to meet the requirements for qualification as a REIT, including any transfer that results in the capital stock being owned by fewer than 100 persons or results in the Company being closely held within the meaning of section 856(h) of the Code, shall be null and void, and the intended transferee will acquire no rights to the capital stock. The foregoing restrictions on transferability and ownership will not apply if the Board of Directors determines that it is no longer in the best interests of the Company to attempt to qualify, or to continue to qualify as a REIT.

Capital stock owned, or deemed to be owned, or transferred to a shareholder in excess of the Ownership Limit shall be deemed Excess Shares held by such holder as agent on behalf of, and in trust for the exclusive benefit of the transferees (which may include the Company) to whom such capital stock may be ultimately transferred without violating the Ownership Limit. While the Excess Shares are held in trust, the holder thereof will not be entitled to vote, the Excess Shares will not be considered issued and outstanding for purposes of any shareholder vote or the determination of a quorum for such vote and, except upon liquidation, will not be entitled to participate in dividends or other distributions. Any dividend or distribution paid to a proposed transferee of Excess Shares prior to the discovery by the Company that capital stock has been transferred in violation of the Ownership Limitation shall be repaid to the Company upon demand.

Excess Shares are further subject to transfer at the direction of the Board of Directors. If the Board of Directors directs a holder of Excess Shares to sell such Excess Shares, such holder shall pay the Company out of the proceeds of such sale all expenses incurred by the Company in connection with such sale plus any remaining amount of such proceeds that exceeds that amount paid by such holder for the Excess Shares.

In addition, the Company will have the right, for a period of six months during the time any Excess Shares are held by the holder in trust, to redeem all or any portion of the Excess Shares from the holder for the lesser of the price paid for the capital stock by the holder or the market price (as determined in the manner set forth in the Company's charter) of the capital stock on the date the Company gives notice of its intent to redeem such Excess Shares. The six month period begins on the date on which the Company receives written notice of the transfer or other event resulting in the classification of capital stock as Excess Shares.

Each shareholder shall upon demand be required to disclose to the Company in writing any information with respect to the direct, indirect and constructive ownership of beneficial interests in the Company as the Board of Directors deems necessary to comply with the provisions of the Code applicable to REITs, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

The Ownership Limitation may have the effect of precluding acquisition of control of the Company unless the Board of Directors determines that maintenance of REIT status is no longer in the best interests of the Company.

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Other Matters

The transfer agent and registrar for the Company's Common Stock is AmSouth Bank of Alabama, Birmingham, Alabama.

Pursuant to the TBCA, the Company cannot merge with or sell all or substantially all of the assets of the Company, except pursuant to a resolution approved by the affirmative vote of a majority of the outstanding shares of Common Stock entitled to vote on the resolution. In addition, the Partnership Agreement requires that any merger or sale of all or substantially all of the assets of or dissolution of the Operating Partnership be approved by the affirmative vote of a majority of the outstanding units.

DESCRIPTION OF DEBT SECURITIES

Capitalized Terms Not Otherwise Defined Herein Shall Have The Meanings Set Forth In The Indenture.

The Debt Securities are to be issued under an Indenture, a copy of the form of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part and incorporated herein by reference, subject to such supplements and amendments as may be adopted from time to time (each an Indenture and collectively, the Indentures). The Indentures will be executed by the Company and one or more trustees (each a Trustee). The Indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended (the TIA). The statements made hereunder relating to the Indenture and the Debt Securities to be issued thereunder are summaries of certain provisions thereof and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the Indenture and such Debt Securities. All section references appearing herein are to sections of the Indenture, and capitalized terms used but not defined herein shall have the respective meanings set forth in the Indenture.

General

The Debt Securities will be direct and unsecured general obligations of the Company, unless otherwise provided in the Prospectus Supplement. As indicated in the applicable Prospectus Supplement, the Debt Securities may be either senior debt, senior to all future subordinated indebtedness of the Company and pari passu with other current and future unsecured, unsubordinated indebtedness of the Company, or, in the alternative, subordinated debt, subordinate in right of payment to current and future senior debt and pari passu with other future subordinated indebtedness of the Company. The Indenture provides that the Debt Securities may be issued without limit as to aggregate principal amount, in one or more series, in each case as established from time to time in or pursuant to authority granted by a resolution of the Board of Directors of the Company or as established in one or more Indentures supplemental to the Indenture. All Debt Securities of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the Holders of the Debt Securities of such series, for issuances of additional Debt Securities of such series.

The Indenture provides that there may be more than one Trustee thereunder, each with respect to one or more series of Debt Securities. Any Trustee under the Indenture may resign or be removed with respect to one or more series of Debt Securities, and a successor Trustee may be appointed to act with respect to such series. In the event that two or more persons are acting as Trustee with respect to different series of Debt Securities, each such Trustee shall be a Trustee of a trust under the Indenture separate and apart from the trust administered by any other Trustee, and, except as otherwise indicated herein, any action described herein to be taken by the Trustee may be taken by each such Trustee with respect to, and only with respect to, the one or more series of Debt Securities for which it is Trustee under the Indenture.

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Reference is made to the Prospectus Supplement relating to the series of Debt Securities being offered for the specific terms thereof, including:

1. the title of such Debt Securities (including whether they are senior debt or subordinated debt and whether they are convertible);
2. the aggregate principal amount of such Debt Securities and any limit on such aggregate principal amount;
3. the date or dates, or the method for determining such date or dates, on which the principal of such Debt Securities will be payable;
4. the rate or rates (which may be fixed or variable), or the method by which such rate or rates shall be determined, at which such Debt Securities will bear interest, if any;
5. the date or dates, or the method for determining such date or dates, from which any such interest will accrue, the dates on which any such interest will be payable, the record dates for determining to whom interest payments will be made, or the method by which such dates shall be determined, the persons to whom such interest shall be payable, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months;
6. the place or places where the principal of (and premium, if any) and interest, if any, on such Debt Securities will be payable, where such Debt Securities may be surrendered for conversion or registration of transfer or exchange, and where notices or demands to or upon the Company in respect of such Debt Securities and the Indenture may be served;
7. the period or periods within which, the price or prices at which, and the terms and conditions upon which such Debt Securities may be redeemed, in whole or in part, at the option of the Company, if the Company is to have such an option;
8. the obligation, if any, of the Company to redeem, repay, or purchase such Debt Securities pursuant to any sinking fund or analogous provision or at the option of a Holder thereof, and the period or periods within which, the price or prices at which, and the terms and conditions upon which such Debt Securities will be redeemed, repaid or purchased, in whole or in part, pursuant to such obligation;
9. the price (stated as a percentage of par or the stated principal amount of the Debt Securities) at which such Debt Securities will be issued and, if other than 100% of the stated principal amount thereof, the portion of the stated principal amount thereof payable upon declaration of acceleration of the maturity thereof, or (if applicable) the portion of the stated principal amount of such Debt Securities which is convertible into shares of Common Stock, Preferred Stock or Debt Securities of another series, or the method by which any such portion shall be determined;
10. if other than U.S. dollars, the currency or currencies in which such Debt Securities are denominated and payable, which may be a foreign currency or units of two or more foreign currencies or a composite currency or currencies, and the terms and conditions relating thereto;
11. whether the amount of payments of principal of (and premium, if any) or interest, if any, on such Debt Securities may be determined with reference to an index, formula or other method (which index, formula or method may, but need not be, based on a currency, currencies, currency unit or units or composite currency or currencies) and the manner in which such amounts shall be determined;
12. any additions to, modifications of or deletions from the terms of such Debt Securities with respect to the Events of Default or covenants set forth in the Indenture;

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13. whether such Debt Securities will be issued in certificated or book-entry form;
14. whether such Debt Securities will be in registered or bearer form and, if in registered form, the denominations thereof if other than \$1,000 and any integral multiple thereof and, if in bearer form, the denominations thereof and terms and conditions relating thereto;

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15. the applicability, if any, of the defeasance and covenant defeasance provisions of Article XIV of the Indenture;
16. if such Debt Securities are to be issued upon the exercise of Debt Securities Warrants, the time, manner and place for such Debt Securities to be authenticated and delivered;
17. the terms, if any, upon which Debt Securities may be convertible into Common Stock, Preferred Stock or Debt Securities of another series of the Company, and the terms and conditions upon which such conversion will be effected, including, without limitation, the initial conversion price or rate and the conversion period;
18. if convertible, in connection with the preservation of the Company's status as a REIT, any applicable limitations on the ownership or transferability of the Common Stock, Preferred Stock or other capital stock of the Company into which such Debt Securities are convertible;
19. whether and under what circumstances the Company will pay additional amounts as contemplated in the Indenture on such Debt Securities in respect of any tax, assessment or governmental charge and, if so, whether the Company will have the option to redeem such Debt Securities in lieu of making such payment;
20. the terms, if any, upon which such Debt Securities will be subordinate to other debt of the Company; and
21. any other terms of such Debt Securities not inconsistent with the provisions of the Indenture.

The Debt Securities may provide for less than the entire principal amount thereof to be payable upon declaration of acceleration of the maturity thereof or may bear no interest or may bear interest at a rate which at the time of issuance is below market rates (Original Issue Discount Securities). Special U.S. federal income tax, accounting and other considerations applicable to Original Issue Discount Securities will be described in the applicable Prospectus Supplement.

The Indenture does not contain any other provision that would limit the ability of the Company to incur indebtedness or that would afford holders of Debt Securities protection in the event of a highly leveraged or similar transaction involving the Company or in the event of a change of control. However, restrictions on ownership and transfers of the Company's Common Stock are designed to preserve its status as a REIT and, therefore, may act to prevent or hinder a change of control. See Description of Capital Stock. Reference is made to the applicable Prospectus Supplement for information with respect to any deletion from, modification of or addition to the Events of Default or covenants of the Company that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

Denominations, Interest, Registration And Transfer

Unless otherwise described in the applicable Prospectus Supplement, the Debt Securities of any series will be issuable in denominations of \$1,000 and integral multiples thereof.

Unless otherwise described in the applicable Prospectus Supplement, the principal of (and premium, if any) and interest on any series of Debt Securities will be payable at the corporate trust office of the Trustee, provided that, at the option of the Company, payment of interest may be made by check mailed to the address of the person entitled thereto as it appears in the transfer record maintained in respect of such series of Debt

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Securities or by wire transfer of funds to such person at an account maintained within the United States.

Any interest not punctually paid or duly provided for on any interest payment date with respect to a Debt Security (Defaulted Interest) will forthwith cease to be payable to the holder on the applicable record date and may either be paid to the person in whose name such Debt Security is registered at the close of business on a

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special record date (the Special Record Date) for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to the holder of such Debt Security not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more completely described in the Indenture.

Subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series will be exchangeable for other Debt Securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of such Debt Securities at the corporate trust office of the Trustee. In addition, subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series shall be surrendered for conversion (if applicable) or registration of transfer thereof at the corporate trust office of the Trustee. Every Debt Security surrendered for conversion, registration of transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer. No service charge will be made for any registration of transfer or exchange of Debt Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. If the applicable Prospectus Supplement refers to any transfer agent (in addition to the Trustee) initially designated by the Company with respect to any series of Debt Securities, the Company may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, except that the Company will be required to maintain a transfer agent in each place of payment for such series. The Company may at any time designate additional transfer agents with respect to any series of Debt Securities.

Neither the Company nor the Trustee shall be required to (i) issue, register the transfer of or exchange Debt Securities of any series during a period beginning at the opening of business 15 days before any selection of Debt Securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; (ii) register the transfer of or exchange any Debt Security, or portion thereof, called for redemption, except the unredeemed portion of any Debt Security being redeemed in part; or (iii) issue, register the transfer of or exchange any Debt Security which has been surrendered for repayment at the option of the holder, except the portion, if any, of such Debt Security not to be so repaid.

Merger, Consolidation or Sale

The Company, without the consent of the Holders of any of the Debt Securities, may consolidate with, or sell, lease or convey all or substantially all of its assets to, or merge with or into, any other corporation, provided that (a) either the Company shall be the continuing corporation or, the successor corporation (if other than the Company) formed by or resulting from any such consolidation or merger or which shall have received the transfer of such assets shall expressly assume payment of the principal of (and premium, if any) and interest on all of the Debt Securities and the due and punctual performance and observance of all of the covenants and conditions contained in the Indenture; (b) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Company or any Subsidiary as a result thereof as having been incurred and be continuing; and (c) an officer's certificate and legal opinion covering such conditions shall be delivered to the Trustee.

Certain Covenants

Existence

Except as permitted under Merger, Consolidation or Sale, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory) and franchises; provided, however, that the Company shall not be required to preserve any right or franchise if it determines that the preservation thereof is no longer desirable in the conduct of its business and

that the loss thereof is not disadvantageous in any material respect to the holders of the Debt Securities.

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Maintenance of Properties

The Company will cause all of its properties used or useful in the conduct of its business or the business of any subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that the Company and its subsidiaries shall not be prevented from selling or otherwise disposing for value its properties in the ordinary course of business.