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

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014
or

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

For the transition period from ______ to ______

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

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

| | |
|---|---|
| Tennessee (Mid-America Apartment Communities, Inc.) | 62-1543819 |
| Tennessee (Mid-America Apartments, L.P.) | 62-1543816 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

6584 Poplar Avenue, Memphis, Tennessee, 38138
(Address of principal executive offices) (Zip Code)
(901) 682-6600
(Registrant's telephone number, including area code)

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

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

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

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

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

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

| | | | | |
|---|---|---|---|---|
| Mid-America Apartment Communities, Inc. | | | | |
| | Large accelerated filer R | Accelerated filer o | Non-accelerated filer o | Smaller reporting company o |
| | | | (Do not check if a smaller reporting company) | |
| Mid-America Apartments, L.P. | | | | |
| | Large accelerated filer o | Accelerated filer o | Non-accelerated filer R | Smaller reporting company o |
| | | | (Do not check if a smaller reporting company) | |

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

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

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

| Class | Number of Shares Outstanding at October 27, 2014 |
|---|---|
| Common Stock, $0.01 par value | 75,254.249 |

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

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Explanatory Note

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

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

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

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

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

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

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

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

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

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

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

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

| | | |
|---|---|---|
| Exercise of stock options | 11,916 | — |
| Distributions to noncontrolling interests | (9,227) | (3,574) |
| Dividends paid on common shares | (164,298) | (88,814) |
| Net cash (used in) provided by financing activities | (243,250) | 97,618 |
| Net (decrease) increase in cash and cash equivalents | (1,567) | 172,030 |
| Cash and cash equivalents, beginning of period | 89,333 | 9,075 |
| Cash and cash equivalents, end of period | $87,766 | $181,105 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $101,252 | $48,534 |
| Income taxes paid | $1,596 | $803 |
| Supplemental disclosure of noncash investing and financing activities: | | |
| Conversion of units to shares of common stock | $992 | $550 |
| Accrued construction in progress | $6,539 | $4,190 |
| Interest capitalized | $1,253 | $1,118 |
| Marked-to-market adjustment on derivative instruments | $6,471 | $21,367 |
| Fair value adjustment on debt assumed | $2,720 | $704 |
| Loan assumption | $52,521 | $18,293 |

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Balance Sheets
September 30, 2014 and December 31, 2013
(Dollars in thousands, except unit data)

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets: | | |
| Real estate assets: | | |
| Land | $872,786 | $871,316 |
| Buildings and improvements | 6,595,550 | 6,366,701 |
| Furniture, fixtures and equipment | 208,653 | 199,573 |
| Development and capital improvements in progress | 59,161 | 166,048 |
| | 7,736,150 | 7,603,638 |
| Less accumulated depreciation | (1,288,374) | (1,124,207) |
| | 6,447,776 | 6,479,431 |
| | | |
| Undeveloped land | 58,700 | 63,850 |
| Corporate properties, net | 8,263 | 7,523 |
| Investments in real estate joint ventures | 1,802 | 5,499 |
| Real estate assets, net | 6,516,541 | 6,556,303 |
| | | |
| Cash and cash equivalents | 87,766 | 89,333 |
| Restricted cash | 59,786 | 44,361 |
| Deferred financing costs, net | 17,870 | 17,424 |
| Other assets | 62,996 | 91,637 |
| Goodwill | 2,321 | 4,106 |
| Assets held for sale | 35,734 | 38,761 |
| Total assets | $6,783,014 | $6,841,925 |
| | | |
| Liabilities and Capital: | | |
| Liabilities: | | |
| Secured notes payable | $1,554,592 | $1,790,935 |
| Unsecured notes payable | 1,875,422 | 1,681,783 |
| Accounts payable | 10,089 | 15,067 |
| Fair market value of interest rate swaps | 13,132 | 20,015 |
| Accrued expenses and other liabilities | 238,849 | 206,268 |
| Security deposits | 9,970 | 9,270 |
| Due to general partner | 19 | 19 |
| Total liabilities | 3,702,073 | 3,723,357 |
| | | |
| Redeemable units | 5,028 | 5,050 |
| | | |
| Capital: | | |
| General partner: 75,242,266 OP Units outstanding at September 30, 2014 and 74,830,726 OP Units outstanding at December 31, 2013 (1) | 2,912,499 | 2,946,598 |
| Limited partners: 4,202,123 OP Units outstanding at September 30, 2014 and 4,227,384 OP Units outstanding at December 31, 2013 (1) | 162,937 | 166,746 |
| Accumulated other comprehensive income | 477 | 174 |

| | | |
|---|---|---|
| Total capital | 3,075,913 | 3,113,518 |
| Total liabilities and capital | $6,783,014 | $6,841,925 |

(1) Number of units outstanding represent total OP Units regardless of classification on the consolidated balance sheet. The number of units classified as redeemable units on the consolidated balance sheet at September 30, 2014 and December 31, 2013 are 85,164 and 83,139, respectively.

See accompanying notes to condensed consolidated financial statements.

Mid-America Apartments, L.P.
Condensed Consolidated Statements of Operations
Three and nine months ended September 30, 2014 and 2013
(Unaudited)
(Dollars in thousands, except per unit data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Operating revenues: | | | | |
| Rental revenues | $225,789 | $124,612 | $669,387 | $363,445 |
| Other property revenues | 22,981 | 10,648 | 67,266 | 31,217 |
| Total property revenues | 248,770 | 135,260 | 736,653 | 394,662 |
| Management fee income | 11 | 146 | 169 | 465 |
| Total operating revenues | 248,781 | 135,406 | 736,822 | 395,127 |
| Property operating expenses: | | | | |
| Personnel | 26,355 | 14,930 | 76,447 | 43,332 |
| Building repairs and maintenance | 8,703 | 4,554 | 22,286 | 11,557 |
| Real estate taxes and insurance | 30,918 | 16,741 | 92,735 | 48,187 |
| Utilities | 14,874 | 7,506 | 41,534 | 20,900 |
| Landscaping | 4,002 | 2,894 | 15,391 | 8,595 |
| Other operating | 15,781 | 9,068 | 47,225 | 26,464 |
| Depreciation and amortization | 70,222 | 32,766 | 229,866 | 97,183 |
| Total property operating expenses | 170,855 | 88,459 | 525,484 | 256,218 |
| Acquisition expense | 13 | — | 971 | 499 |
| Property management expenses | 7,429 | 4,970 | 24,019 | 15,301 |
| General and administrative expenses | 6,511 | 3,976 | 16,065 | 10,604 |
| Merger related expenses | 331 | 5,561 | 3,202 | 11,298 |
| Integration related expenses | 147 | 35 | 7,140 | 35 |
| Income from continuing operations before non-operating items | 63,495 | 32,405 | 159,941 | 101,172 |
| Interest and other non-property income | 85 | 16 | 1,166 | 86 |
| Interest expense | (28,251) | (14,923) | (89,090) | (45,657) |
| Loss on debt extinguishment/modification | (2,586) | (218) | (2,586) | (387) |
| Amortization of deferred financing costs | (1,000) | (820) | (3,485) | (2,427) |
| Net casualty (loss) gain after insurance and other settlement proceeds | (126) | — | (431) | 455 |
| Gain on sale of depreciable real estate assets excluded from discontinued operations | 36,032 | — | 42,254 | — |
| Gain on sale of non-depreciable real estate assets | — | — | 535 | — |
| Income before income tax expense | 67,649 | 16,460 | 108,304 | 53,242 |
| Income tax expense | (442) | (223) | (1,235) | (669) |
| Income from continuing operations before joint venture activity | 67,207 | 16,237 | 107,069 | 52,573 |
| Gain from real estate joint ventures | 3,124 | 60 | 6,019 | 161 |
| Income from continuing operations | 70,331 | 16,297 | 113,088 | 52,734 |
| Discontinued operations: | | | | |
| Income from discontinued operations before (loss) gain on sale | 488 | 973 | 1,353 | 4,054 |
| Net casualty gain (loss) after insurance and other settlement proceeds on discontinued operations | 3 | (1) | — | (5) |
| (Loss) gain on sale of discontinued operations | (103) | 28,806 | 5,378 | 60,585 |
| Net income available for Mid-America Apartments, L.P. common unitholders | $70,719 | $46,075 | $119,819 | $117,368 |

| | | | | |
|---|---|---|---|---|
| Earnings per common unit - basic: | | | | |
| Income from continuing operations available for common unitholders | $0.89 | $0.37 | $1.43 | $1.19 |
| Income from discontinued operations available for common unitholders | — | 0.67 | 0.08 | 1.46 |
| Net income available for common unitholders | $0.89 | $1.04 | $1.51 | $2.65 |
| | | | | |
| Earnings per common unit - diluted: | | | | |
| Income from continuing operations available for common unitholders | $0.89 | $0.37 | $1.43 | $1.19 |
| Income from discontinued operations available for common unitholders | — | 0.67 | 0.08 | 1.46 |
| Net income available for common unitholders | $0.89 | $1.04 | $1.51 | $2.65 |
| | | | | |
| Distributions declared per common unit | $0.7300 | $0.6950 | $2.1900 | $2.0850 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income available for Mid-America Apartments, L.P. common unitholders | $70,719 | $46,075 | $119,819 | $117,368 |
| Other comprehensive income: | | | | |
| Unrealized (losses) gains from the effective portion of derivative instruments | (696) | (1,826) | (9,096) | 10,096 |
| Reclassification adjustment for net losses included in net income for the effective portion of derivative instruments | 2,589 | 3,621 | 9,399 | 12,098 |
| Comprehensive income attributable to Mid-America Apartments, L.P. | $72,612 | $47,870 | $120,122 | $139,562 |

See accompanying notes to condensed consolidated financial statements.

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

| | Nine months ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Consolidated net income | $119,819 | $117,368 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Retail revenue accretion | (17) | (29) |
| Depreciation and amortization | 233,312 | 101,923 |
| Stock compensation expense | 3,180 | 1,729 |
| Redeemable units issued | 690 | 535 |
| Amortization of debt premium | (20,121) | (948) |
| Gain from investments in real estate joint ventures | (3,159) | (161) |
| Loss on debt extinguishment | 2,586 | 387 |
| Derivative interest (credit) expense | (2,543) | 827 |
| Settlement of forward swaps | (3,625) | — |
| Gain on sale of non-depreciable real estate assets | (535) | — |
| Gain on sale of depreciable real estate assets excluded from discontinued operations | (42,254) | — |
| Gain on sale of discontinued operations | (5,378) | (60,585) |
| Net casualty loss (gain) and other settlement proceeds | 431 | (450) |
| Changes in assets and liabilities: | | |
| Restricted cash | 15,062 | (390) |
| Other assets | (5,016) | (7,740) |
| Accounts payable | (1,665) | 2,409 |
| Accrued expenses and other | 31,630 | 13,200 |
| Security deposits | 688 | 242 |
| Net cash provided by operating activities | 323,085 | 168,317 |
| Cash flows from investing activities: | | |
| Purchases of real estate and other assets | (180,272) | (89,866) |
| Normal capital improvements | (71,140) | (35,451) |
| Construction capital and other improvements | (4,456) | (3,873) |
| Renovations to existing real estate assets | (11,950) | (8,616) |
| Development | (40,752) | (26,129) |
| Distributions from real estate joint ventures | 15,964 | 8,311 |
| Contributions to real estate joint ventures | — | (183) |
| Proceeds from disposition of real estate assets | 241,691 | 102,204 |
| Funding of escrow for future acquisitions | (30,487) | (57,380) |
| Net cash used in investing activities | (81,402) | (110,983) |
| Cash flows from financing activities: | | |
| Advances from general partner | — | 17,219 |
| Net change in credit lines | (216,184) | 177,000 |
| Proceeds from notes payable | 396,532 | — |
| Principal payments on notes payable | (258,105) | (8,695) |
| Payment of deferred financing costs | (4,156) | (2,655) |
| Repurchase of common units | (456) | (682) |

| | | |
|---|---|---|
| Proceeds from issuances of common units | 728 | 25,038 |
| Exercise of unit options | 11,916 | — |
| Distributions paid on common units | (173,525 ) | (92,388 ) |
| Net cash (used in) provided by financing activities | (243,250 ) | 114,837 |
| Net (decrease) increase in cash and cash equivalents | (1,567 ) | 172,171 |
| Cash and cash equivalents, beginning of period | 89,333 | 8,934 |
| Cash and cash equivalents, end of period | $87,766 | $181,105 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $101,252 | $48,534 |
| Income taxes paid | $1,596 | $803 |
| Supplemental disclosure of noncash investing and financing activities: | | |
| Accrued construction in progress | $6,539 | $4,190 |
| Interest capitalized | $1,253 | $1,118 |
| Marked-to-market adjustment on derivative instruments | $6,471 | $21,367 |
| Fair value adjustment on debt assumed | $2,720 | $704 |
| Loan assumption | $52,521 | $18,293 |

See accompanying notes to condensed consolidated financial statements.

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Mid-America Apartment Communities, Inc. and Mid-America Apartments, L.P.
Notes to Condensed Consolidated Financial Statements
September 30, 2014 and 2013
(Unaudited)

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

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

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

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

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

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

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

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

As of September 30, 2014, we owned and operated 265 apartment communities comprising 81,137 apartments located in 14 states principally through the Operating Partnership, and we also owned an interest in the following unconsolidated real estate joint ventures:

| | Percent Owned | Number of Units/Square Feet |
|---|---|---|
| Multifamily: | | |
| McKinney [1] | 25.00% | — |
| | | |
| Commercial: | | |
| Land Title Building | 33.30% | 29,971 |

[1] This joint venture consists of undeveloped land.

As of September 30, 2014, we had two development communities under construction totaling 514 units, with no units completed. Total expected costs for the development projects are $72.9 million, of which $49.2 million has been incurred through September 30, 2014. We expect to complete construction on one of the two projects by the first quarter of 2015 and on the other by the second quarter of 2015. Four of our multifamily properties include retail components with approximately 100,000 square feet of gross leasable area. We also have three wholly owned commercial properties, which we acquired through our merger with Colonial with approximately 287,000 square feet of gross leasable area, excluding tenant owned anchor stores, and one partially owned commercial property with approximately 30,000 square feet of gross leasable area.

Out of Period Adjustment

During the three months ended September 30, 2014, we reviewed our reconciliation of accumulated other comprehensive income, or AOCI. During this review, we noted that balances attributable to certain off-market interest rate swaps had accumulated in AOCI. As a result of this review, in the current quarter we recorded a $2.3 million non-cash adjustment to interest expense related to certain off-market derivative contracts acquired with the merger. This represents a cumulative adjustment for the one year period ended September 30, 2014 required by Accounting Standards Codification, or ASC, 815 to properly reflect the AOCI related to these off-market derivative contracts. The impact of the misstatement caused Net income available for MAA common shareholders to be understated by approximately $0.8 million, or $0.01 per diluted share for the year ended December 31, 2013. Total MAA shareholders' equity would not be affected by this adjustment. Because we believe the impact to Net income available for MAA common shareholders, EPS, and Total MAA shareholders' equity would not impact the readers of these financial statements, we deemed the out of period portion of this adjustment to be immaterial to the current period and all periods presented.

Reclassifications

In order to present comparative financial statements, certain reclassifications have been made. We previously reported approximately $9.5 million of cash proceeds from stock option exercises within Cash flows from operating activities for the six months ended June 30, 2014. This line has been reclassified to Cash flows from financing activities for the nine months ended September 30, 2014. In addition, we previously reported $6.2 million of Gain on sale of depreciable real-estate assets excluded from discontinued operations and $0.5 million of Gain on sale of non-depreciable real-estate assets as separate items below Discontinued operations on our Statement of Operations for the six months ended June 30, 2014. These two lines have been reclassified into Income from continuing operations for all periods presented as allowed under Accounting Standards Update, or ASU, 2014-08. The reclassifications had no effect on Net income available for MAA common shareholders.

Basis of Presentation and Principles of Consolidation

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

We invest in entities which may qualify as variable interest entities, or VIE. A VIE is a legal entity in which the equity investors lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack the power to direct the activities of a legal entity as well as the obligation to absorb its expected losses or the right to receive its expected residual returns. We consolidate all VIEs for which we are the primary beneficiary and use the equity method to account for investments that qualify as VIEs but for which we are not the primary beneficiary. In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including but not limited to, those activities that most significantly impact the VIE's economic performance and which party controls such activities.

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

2. Business Combinations

Merger of MAA and Colonial

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

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

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

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

The allocation of the purchase price described above requires a significant amount of judgment and represents the Company's best estimate of the fair value as of the acquisition date. The following final purchase price allocation was based on our valuation as well as estimates and assumptions of the acquisition date fair value of the tangible and intangible assets acquired and liabilities assumed.

The following table summarizes the final purchase price allocation (in thousands):

| | |
|---|---|
| Land | $469,396 |
| Buildings and improvements | 3,080,858 |
| Furniture, fixtures and equipment | 96,377 |
| Development and capital improvements in progress | 113,368 |
| Undeveloped land | 58,400 |
| Properties held for sale | 33,300 |
| Lease intangible assets | 57,946 |
| Cash and cash equivalents | 63,454 |
| Restricted cash | 6,825 |
| Deferred costs and other assets, excluding lease intangible assets | 86,141 |
| Total assets acquired | 4,066,065 |
| | |
| Notes payable | (1,759,550) |
| Fair market value of interest rate swaps | (14,961) |
| Accounts payable, accrued expenses, and other liabilities | (128,678) |
| Total liabilities assumed, including debt | (1,903,189 ) |
| | |
| Total purchase price | $2,162,876 |

We incurred merger and integration related expenses of $10.3 million for the nine months ended September 30, 2014. These amounts were expensed as incurred and are included in the Consolidated Statement of Operations in the items titled Merger related expenses, primarily consisting of severance, legal, and professional costs and Integration related expenses, primarily related to temporary systems, staffing, and facilities costs.

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

3. Earnings per Common Share of MAA

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per share. Both the unvested restricted shares and other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis with our diluted earnings per share being the more dilutive of the treasury stock or two-class methods. Operating Partnership units are included in dilutive earnings per share calculations when they are dilutive to earnings per share. For the three and nine months ended September 30, 2014 and 2013, MAA's basic earnings per share is computed using the two-class method, and our diluted earnings per share is computed using the more dilutive of the treasury stock method or two-class method:

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| (dollars and shares in thousands, except per share amounts) | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| Shares Outstanding | | | | |
| Weighted average common shares - basic | 75,058 | 42,702 | 74,937 | 42,583 |
| Weighted average partnership units outstanding | — (1) | — (1) | — (1) | 1,709 |
| Effect of dilutive securities | — (1) | — (1) | — (1) | 53 |
| Weighted average common shares - diluted | 75,058 | 42,702 | 74,937 | 44,345 |
| | | | | |
| Calculation of Earnings per Share - basic | | | | |
| Income from continuing operations | $70,331 | $16,297 | $113,088 | $52,734 |
| Income from continuing operations attributable to noncontrolling interests | (3,722) | (632) | (6,005) | (1,973) |
| Income from continuing operations allocated to unvested restricted shares | (130) | (14) | (209) | (46) |
| Income from continuing operations available for common shareholders, adjusted | $66,479 | $15,651 | $106,874 | $50,715 |
| | | | | |
| Income from discontinued operations | $388 | $29,759 | $6,731 | $76,355 |
| Income from discontinued operations attributable to noncontrolling interest | (21) | (1,140) | (359) | (2,563) |
| Income from discontinued operations allocated to unvested restricted shares | (1) | (25) | (12) | (67) |
| Income from discontinued operations available for common shareholders, adjusted | $366 | $28,594 | $6,360 | $73,725 |
| | | | | |
| Weighted average common shares - basic | 75,058 | 42,702 | 74,937 | 42,583 |
| Earnings per share - basic | $0.89 | $1.04 | $1.51 | $2.92 |
| | | | | |
| Calculation of Earnings per Share - diluted | | | | |
| Income from continuing operations | $70,331 | $16,297 | $113,088 | $52,734 |
| Income from continuing operations attributable to noncontrolling interests | (3,725) (1) | (632) (1) | (6,005) (1) | — |
| Income from continuing operations allocated to unvested restricted shares | (130) (1) | (14) (1) | (209) (1) | — |
| Income from continuing operations available for common shareholders, adjusted | $66,476 | $15,651 | $106,874 | $52,734 |
| | | | | |
| Income from discontinued operations | $388 | $29,759 | $6,731 | $76,355 |
| Income from discontinued operations attributable to noncontrolling interest | (21) (1) | (1,140) (1) | (357) (1) | — |
| Income from discontinued operations allocated to unvested restricted shares | (1) (1) | (25) (1) | (12) (1) | — |
| Income from discontinued operations available for common shareholders, adjusted | $366 | $28,594 | $6,362 | $76,355 |
| | | | | |
| Weighted average common shares - diluted | 75,058 | 42,702 | 74,937 | 44,345 |
| Earnings per share - diluted | $0.89 | $1.04 | $1.51 | $2.91 |

[1] Operating partnership units, other dilutive securities, and the related income with each are not included in the diluted earnings per share calculations as they were not dilutive.

4. Earnings per OP Unit of MAALP

Basic earnings per OP Unit is computed by dividing net income available for common unitholders by the weighted average number of units outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common unitholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per OP unit. Diluted earnings per OP Unit reflects the potential dilution that could occur if securities or other contracts to issue OP Units were exercised or converted into OP Units. A reconciliation of the numerators and denominators of the basic and diluted earnings per unit computations for the three and nine months ended September 30, 2014 and 2013 is presented below:

| (dollars and units in thousands, except per unit amounts) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Units Outstanding | | | | |
| Weighted average common units - basic | 79,263 | 44,408 | 79,148 | 44,293 |
| Effect of dilutive securities | — (1) | — (1) | — (1) | 53 |
| Weighted average common units - diluted | 79,263 | 44,408 | 79,148 | 44,346 |
| | | | | |
| Calculation of Earnings per Unit - basic | | | | |
| Income from continuing operations | $70,331 | $16,297 | $113,088 | $52,734 |
| Income from continuing operations allocated to unvested restricted shares | (130) | (14) | (209) | (46) |
| Income from continuing operations available for common unitholders, adjusted | $70,201 | $16,283 | $112,879 | $52,688 |
| | | | | |
| Income from discontinued operations | $388 | $29,778 | $6,731 | $64,634 |
| Income from discontinued operations allocated to unvested restricted shares | (1) | (25) | (12) | (56) |
| Income from discontinued operations available for common unitholders, adjusted | $387 | $29,753 | $6,719 | $64,578 |
| | | | | |
| Weighted average common units - basic | 79,263 | 44,408 | 79,148 | 44,293 |
| Earnings per unit - basic: | $0.89 | $1.04 | $1.51 | $2.65 |
| | | | | |
| Calculation of Earnings per Unit - diluted | | | | |
| Income from continuing operations | $70,331 | $16,297 | $113,088 | $52,734 |
| Income from continuing operations allocated to unvested restricted shares | (130) (1) | (14) (1) | (209) (1) | — |
| Income from continuing operations available for common unitholders, adjusted | $70,201 | $16,283 | $112,879 | $52,734 |
| | | | | |
| Income from discontinued operations | $388 | $29,778 | $6,731 | $64,634 |
| Income from discontinued operations allocated to unvested restricted shares | (1) (1) | (25) (1) | (12) (1) | — |
| Income from discontinued operations available for common unitholders, adjusted | $387 | $29,753 | $6,719 | $64,634 |
| | | | | |
| Weighted average common units - diluted | 79,263 | 44,408 | 79,148 | 44,346 |

| | | | | |
|---|---|---|---|---|
| Earnings per unit - diluted: | $0.89 | $1.04 | $1.51 | $2.65 |

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

5. MAA Equity

Total equity and its components for the nine-month periods ended September 30, 2014 and 2013 were as follows (dollars in thousands, except per share and per unit data):

| | Mid-America Apartment Communities, Inc. Shareholders | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock Amount | Additional Paid-In Capital | Accumulated Distributions in Excess of Net Income | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total Equity |
| EQUITY BALANCE DECEMBER 31, 2013 | $ 747 | $ 3,599,549 | $ (653,593 ) | $ 108 | $ 166,726 | $ 3,113,537 |
| Net income | | | 113,455 | | 6,364 | 119,819 |
| Other comprehensive income - derivative instruments (cash flow hedges) | | | | 288 | 15 | 303 |
| Issuance and registration of common shares | 2 | 726 | | | | 728 |
| Shares repurchased and retired | — | (456 ) | | | | (456 ) |
| Exercise of stock options | 3 | 11,913 | | | | 11,916 |
| Shares issued in exchange for units | — | 992 | | | (992 ) | — |
| Shares issued in exchange from redeemable stock | | 998 | | | | 998 |
| Redeemable stock fair market value | | | (286 ) | | | (286 ) |
| Adjustment for noncontrolling interest ownership in operating partnership | | (55 ) | | | 55 | — |
| Amortization of unearned compensation | | 3,180 | | | | 3,180 |
| Dividends on common stock ($2.19 per share) | | | (164,598 ) | | — | (164,598 ) |
| Dividends on noncontrolling interest units ($2.19 per unit) | | | | | (9,209 ) | (9,209 ) |
| EQUITY BALANCE SEPTEMBER 30, 2014 | $ 752 | $ 3,616,847 | $ (705,022 ) | $ 396 | $ 162,959 | $ 3,075,932 |

| | Mid-America Apartment Communities, Inc. Shareholders | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock Amount | Additional Paid-In Capital | Accumulated Distributions in Excess of Net Income | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total Equity |
| EQUITY BALANCE DECEMBER 31, 2012 | $ 422 | $ 1,542,999 | $ (603,315 ) | $ (26,054 ) | $ 31,058 | $ 945,110 |
| Net income | | | 124,553 | | 4,536 | 129,089 |
| Other comprehensive income - derivative instruments (cash flow hedges) | | | | 21,455 | 739 | 22,194 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Issuance and registration of common shares | 4 | 25,034 | | | | 25,038 |
| Shares repurchased and retired | — | (682) | | | | (682) |
| Shares issued in exchange for units | 1 | 549 | | | (550) | — |
| Redeemable stock fair market value | | | 209 | | | 209 |
| Adjustment for noncontrolling interest ownership in operating partnership | | (7,418) | | | 7,418 | — |
| Amortization of unearned compensation | | 1,729 | | | | 1,729 |
| Dividends on common stock ($2.085 per share) | | | (89,109) | | — | (89,109) |
| Dividends on noncontrolling interest units ($2.085 per unit) | | | | | (3,557) | (3,557) |
| EQUITY BALANCE SEPTEMBER 30, 2013 | $ 427 | $ 1,562,211 | $ (567,662) | $ (4,599) | $ 39,644 | $ 1,030,021 |

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6. MAALP Capital

Total capital and its components for the nine-month periods ended September 30, 2014 and 2013 were as follows (dollars in thousands, except per unit data):

| | Mid-America Apartments, L.P. Unitholders | | | |
|---|---|---|---|---|
| | Limited Partner | General Partner | Accumulated Other Comprehensive Income (Loss) | Total Partnership Capital |
| CAPITAL BALANCE DECEMBER 31, 2013 | $166,746 | $2,946,598 | $ 174 | $3,113,518 |
| Net income | 6,364 | 113,455 | | 119,819 |
| Other comprehensive income - derivative instruments (cash flow hedges) | | | 303 | 303 |
| Issuance of units | — | 728 | | 728 |
| Units repurchased and retired | | (456) | | (456) |
| Exercise of unit options | | 11,916 | | 11,916 |
| General partner units issued in exchange for limited partner units | (992) | 992 | | — |
| Units issued in exchange from redeemable units | | 998 | | 998 |
| Redeemable units fair market value adjustment | | (286) | | (286) |
| Adjustment for limited partners' capital at redemption value | 28 | (28) | | — |
| Amortization of unearned compensation | | 3,180 | | 3,180 |
| Distributions ($2.19 per unit) | (9,209) | (164,598) | | (173,807) |
| CAPITAL BALANCE SEPTEMBER 30, 2014 | $162,937 | $2,912,499 | $ 477 | $3,075,913 |

| | Mid-America Apartments, L.P. Unitholders | | | |
|---|---|---|---|---|
| | Limited Partner | General Partner | Accumulated Other Comprehensive Income (Loss) | Total Partnership Capital |
| CAPITAL BALANCE DECEMBER 31, 2012 | $38,154 | $927,734 | $ (26,881) | $939,007 |
| Net income | 4,518 | 112,850 | | 117,368 |
| Other comprehensive income - derivative instruments (cash flow hedges) | | | 22,193 | 22,193 |
| Issuance of units | | 25,038 | | 25,038 |
| Units repurchased and retired | | (682) | | (682) |
| General partner units issued in exchange for limited partner units | (550) | 550 | | — |
| Redeemable units fair market value adjustment | | 209 | | 209 |
| Adjustment for limited partners capital at redemption value | 1,218 | 16,597 | | 17,815 |
| Amortization of unearned compensation | | 1,729 | | 1,729 |
| Distributions ($2.085 per unit) | (3,557) | (89,109) | | (92,666) |
| CAPITAL BALANCE SEPTEMBER 30, 2013 | $39,783 | $994,916 | $ (4,688) | $1,030,011 |

7. Borrowings

On September 30, 2014 and December 31, 2013, we had total indebtedness of approximately $3.43 billion and $3.47 billion, respectively. Our indebtedness as of September 30, 2014 consisted of both conventional and tax exempt debt. Borrowings were made through individual property mortgages as well as company-wide credit facilities and notes. We utilize both secured and unsecured debt.

On August 7, 2013, our Operating Partnership entered into a $500 million unsecured revolving credit facility agreement with KeyBank National Association and thirteen other banks. This agreement amends our Operating Partnership's previous unsecured credit facility with KeyBank. Interest is paid using an investment grade pricing grid using LIBOR plus a spread of 0.90% to 1.70%, currently bearing interest at 1.10%. As of September 30, 2014, we had zero borrowings under this facility.

On October 16, 2013, MAALP issued $350 million in aggregate principal amount of notes, maturing on October 15, 2023 with an interest rate of 4.3% per annum (the "2023 Notes"). The purchase price paid by the initial purchasers was 99.047% of the principal amount. The 2023 Notes are general unsecured senior obligations of MAALP and rank equally in right of payment with all other senior unsecured indebtedness of MAALP. Interest on the 2023 Notes is payable on April 15 and October 15 of each year, beginning on April 15, 2014. The net proceeds from the offering after deducting the original issue discount of approximately $3.3 million and underwriting commissions and expenses of approximately $2.3 million was approximately $344.4 million. The 2023 Notes have been reflected net of discount in the consolidated balance sheet. The Company also entered into three forward swaps related to the bond financing totaling $150 million, which resulted in a total effective interest rate of 4.15%.

On December 13, 2013, MAALP completed a series of exchange offers (the “Exchange Offers”) pursuant to which it exchanged $154.2 million aggregate principal amount of 6.25% Senior Notes due 2014, $169.2 million aggregate principal amount of 5.50% Senior Notes due 2015 and $68.1 million aggregate principal amount of 6.05% Senior Notes due 2016 (collectively, the “Existing Notes”) issued by Colonial Realty Limited Partnership, a Delaware limited partnership and wholly owned subsidiary of MAALP, for $154.2 million aggregate principal amount of MAALP’s new 6.25% Senior Notes due 2014 (the “2014 Notes”), $169.1 million aggregate principal amount of MAALP’s new 5.50% Senior Notes due 2015 (the “2015 Notes”) and $68.1 million aggregate principal amount of MAALP’s new 6.05% Senior Notes due 2016 (the “2016 Notes” and together with the 2014 Notes and the 2015 Notes, the “Exchange Notes”), plus approximately $975,000 in cash.

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

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

On June 10, 2014, MAALP issued $400 million in aggregate principal amount of notes, maturing on June 15, 2024 with an interest rate of 3.75% per annum (the "2024 Notes"). The purchase price paid by the initial purchasers was 98.873% of the principal amount. The 2024 Notes are general unsecured senior obligations of MAALP and rank equally in right of payment with all other senior unsecured indebtedness of MAALP. Interest on the 2024 Notes is payable on June 15 and December 15 of each year, beginning on December 15, 2014. The net proceeds from the offering after deducting the original issue discount of approximately $4.5 million and underwriting commissions and expenses of approximately $2.6 million was approximately $392.9 million. The 2024 Notes have been reflected net of discount in the consolidated balance sheet. The Company also entered into five forward swaps related to the bond financing totaling $250 million, which resulted in a total effective interest rate of 3.98%.

The Indenture under which the 2023 and 2024 notes were issued contains certain covenants that, among other things, limit the ability of MAALP and its subsidiaries to incur secured and unsecured indebtedness if not in pro forma compliance with the following negative covenants: (1) total leverage not to exceed 60% of adjusted total assets, (2) secured leverage not to exceed 40% of adjusted total assets and (3) a fixed charge coverage ratio of at least 1.50 to 1. In addition, MAALP is required to maintain at all times unencumbered consolidated total assets of not less than 150% of the aggregate principal amount of its outstanding unsecured debt. At September 30, 2014, MAALP was in compliance with each of these financial covenants.

On July 10, 2014, we paid off a $27.5 million mortgage during our sale of the Greenbrook apartments. We recorded a $2.6 million loss on debt extinguishment due to paying off the mortgage prior to maturity.

We utilize interest rate swaps and interest rate caps to help manage our current and future interest rate risk and entered into 9 interest rate swaps and 6 interest rate caps as of September 30, 2014, representing notional amounts totaling $625.0 million and $165.0 million, respectively. We also held 14 non-designated interest rate caps with notional amounts totaling $90.3 million as of September 30, 2014.

The following table summarizes our outstanding debt structure as of September 30, 2014 (dollars in thousands):

| | Borrowed Balance | Effective Rate | | Average Contract Maturity |
|---|---|---|---|---|
| Fixed Rate Secured Debt | | | | |
| Individual property mortgages | $1,090,496 | 4.0 | % | 5/5/2019 |
| FNMA conventional credit facilities | 50,000 | 4.7 | % | 3/31/2017 |
| Credit facility balances with: | | | | |
| LIBOR-based interest rate swaps | 75,000 | 4.8 | % | 3/31/2015 |
| Total fixed rate secured debt | $1,215,496 | 4.1 | % | 1/1/2019 |
| Variable Rate Secured Debt (1) | | | | |
| FNMA conventional credit facilities | $221,585 | 0.7 | % | 1/27/2017 |
| FNMA tax-free credit facilities | 90,415 | 0.9 | % | 7/23/2031 |
| Freddie Mac mortgages | 27,096 | 3.4 | % | 10/31/2015 |
| Total variable rate secured debt | $339,096 | 1.0 | % | 11/2/2020 |
| Total Secured Debt | $1,554,592 | 3.4 | % | 5/27/2019 |
| | | | | |
| Unsecured Debt | | | | |
| Term loans fixed with swaps | $550,000 | 3.1 | % | 11/10/2017 |
| Fixed rate senior bonds | 1,325,422 | 4.5 | % | 12/3/2021 |
| Total Unsecured Debt | $1,875,422 | 4.0 | % | 9/24/2020 |
| | | | | |
| Total Outstanding Debt | $3,430,014 | 3.7 | % | 11/14/2019 |

(1) Includes capped balances.

8. Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 2014 and 2013, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt and forecasted issuances of fixed-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended September 30, 2014 and 2013, we recorded ineffectiveness of $25,000 (increase to interest expense) and $1,000 (increase to interest expense), respectively, and during the nine months ended September 30, 2014 and 2013, we recorded ineffectiveness of $88,000 (increase to interest expense) and $26,000 (decrease to interest expense), respectively, mainly attributable to a mismatch in the underlying indices of the derivatives and the hedged interest payments made on our variable-rate debt and due to the designation of acquired interest rate swaps with a non-zero fair value at inception.

Amounts reported in accumulated other comprehensive income related to derivatives designated as qualifying cash flow hedges will be reclassified to interest expense as interest payments are made on our variable-rate or fixed-rate debt. During the next 12 months, we estimate that an additional $7.5 million will be reclassified to earnings as an increase to interest expense, which primarily represents the difference between our fixed interest rate swap payments and the projected variable interest rate swap payments.

As of September 30, 2014, we had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

| Interest Rate Derivative | Number of Instruments | Notional |
|---|---|---|
| Interest Rate Caps | 6 | $165,000,000 |
| Interest Rate Swaps | 9 | $625,000,000 |

Non-Designated Hedges

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of FASB ASC 815, Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and resulted in a loss of $10,000 for the three months ended September 30, 2014 and a loss of $138,000 for the nine months ended September 30, 2014. We recorded a loss of $5,000 for the three months ended September 30, 2013 and a loss of $8,000 for the nine months ended September 30, 2013.

As of September 30, 2014, we had the following outstanding interest rate derivatives that were not designated as hedges:

| Interest Rate Derivative | Number of Instruments | Notional |
|---|---|---|
| Interest rate caps | 14 | $90,326,031 |

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

The table below presents the fair value of our derivative financial instruments as well as their classification on the Consolidated Balance Sheet as of September 30, 2014 and December 31, 2013, respectively.

Fair Values of Derivative Instruments on the Consolidated Balance Sheet as of September 30, 2014 and December 31, 2013 (dollars in thousands)

| | Asset Derivatives | | | Liability Derivatives | | |
|---|---|---|---|---|---|---|
| | | September 30, 2014 | December 31, 2013 | | September 30, 2014 | December 31, 2013 |
| Derivatives designated as hedging instruments | Balance Sheet Location | Fair Value | Fair Value | Balance Sheet Location | Fair Value | Fair Value |
| Interest rate contracts | Other assets | $117 | $396 | Fair market value of interest rate swaps | $13,132 | $20,015 |
| Total derivatives designated as hedging instruments | | $117 | $396 | | $13,132 | $20,015 |
| Derivatives not designated as hedging instruments | | | | | | |
| Interest rate contracts | Other assets | $14 | $49 | | $— | $— |
| Total derivatives not designated as hedging instruments | | $14 | $49 | | $— | $— |

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

The table below presents the effect of our derivative financial instruments on the Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013, respectively.

Effect of Derivative Instruments on the Consolidated Statements of Operations for the Three and nine months ended September 30, 2014 and 2013 (dollars in thousands)

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | | Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of G Recognized in Income or Derivative (I Portion and A Excluded fro Effectivenes | |
|---|---|---|---|---|---|---|---|---|
| Three months ended September 30, | 2014 | 2013 | | 2014 | 2013 | | 2014 | 2013 |
| Interest rate contracts | $(696) | $(1,826) | Interest expense | $(2,589) | $(3,621) | Interest expense | $(25) | $(1 |
| Total derivatives in cash flow hedging relationships | $(696) | $(1,826) | | $(2,589) | $(3,621) | | $(25) | $(1 |
| Nine months ended September 30, | | | | | | | | |
| Interest rate contracts | $(9,096) | $10,096 | Interest expense | $(9,399) | $(12,098) | Interest expense | $(88) | $26 |
| Total derivatives in cash flow hedging relationships | $(9,096) | $10,096 | | $(9,399) | $(12,098) | | $(88) | $26 |

| Derivatives Not Designated as Hedging Instruments | | | |
|---|---|---|---|
| Three months ended September 30, | Location of Gain or (Loss) Recognized in Income | 2014 | 2013 |
| Interest rate contracts | Interest expense | $(10) | $(5 |
| Total | | $(10) | $(5 |

| Nine months ended September 30, | | | |
|---|---|---|---|
| Interest rate contracts | Interest expense | $(138) | $(8 |
| Total | | $(138) | $(8 |

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Credit-Risk-Related Contingent Features

As of September 30, 2014, derivatives that were in a net liability position and subject to credit-risk-related contingent features had a termination value of $14.3 million, which includes accrued interest but excludes any adjustment for nonperformance risk. These derivatives had a fair value, gross of asset positions, of $13.1 million at September 30, 2014.

Certain of our derivative contracts contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. As of September 30, 2014, we had not breached the provisions of these agreements. If we had breached these provisions, we could have been required to settle our obligations under the agreements at their termination value of $1.0 million.

Certain of our derivative contracts contain a provision where we could be declared in default on our derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to our default on the indebtedness. As of September 30, 2014, we had not breached the provisions of these agreements. If we had breached theses provisions, we could have been required to settle our obligations under the agreements at the termination value of $12.5 million.

Certain of our derivative contracts are credit enhanced by FNMA. These derivative contracts require that our credit enhancing party maintain credit ratings above a certain level. If our credit support providers were downgraded below Baa1 by Moody’s or BBB+ by Standard & Poor’s, or S&P, we may be required to either post 100 percent collateral or settle the obligations at their termination value of $1.7 million as of September 30, 2014. FNMA is currently rated Aaa by Moody’s and AA+ by S&P, and therefore, the provisions of this agreement have not been breached, and no collateral has been posted related to these agreements as of September 30, 2014.

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

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The table below presents a gross presentation, the effects of offsetting, and a net presentation of our derivatives as of September 30, 2014 and December 31, 2013. The net amounts of derivative assets or liabilities can be reconciled to the Tabular Disclosure of Fair Values of Derivative Instruments above, which also provides the location that derivative assets and liabilities are presented on the Consolidated Balance Sheet (dollars in thousands):

Offsetting of Derivative Assets
As of September 30, 2014

| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets presented in the Statement of Financial Position | Financial Instruments | Cash Collateral Received | Net Amount |
| Derivatives | $131 | $— | $131 | $— | $— | $131 |

Offsetting of Derivative Liabilities
As of September 30, 2014

| | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Liabilities presented in the Statement of Financial Position | Financial Instruments | Cash Collateral Posted | Net Amount |
| Derivatives | $13,132 | $— | $13,132 | $— | $— | $13,132 |

Offsetting of Derivative Assets
As of December 31, 2013

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

Offsetting of Derivative Liabilities
As of December 31, 2013

| | | | | Gross Amounts Not Offset in the Statement of | | |
|---|---|---|---|---|---|---|

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

Other Comprehensive Income

Our other comprehensive income consists entirely of gains and losses attributable to the effective portion of our cash flow hedges. The chart below shows the change in the balance for the nine months ended September 30, 2014 and 2013:

Changes in Accumulated Other Comprehensive Income by Component

| | Affected Line Item in the Consolidated Statements Of Operations | Gains and Losses on Cash Flow Hedges for the nine months ended September 30, | |
|---|---|---|---|
| | | 2014 | 2013 |
| Beginning balance | | $108 | $(26,054) |
| Other comprehensive (loss) income before reclassifications | | (9,096) | 10,096 |
| Amounts reclassified from accumulated other comprehensive income (interest rate contracts) | Interest expense | 9,399 | 12,098 |
| Net current-period other comprehensive loss attributable to noncontrolling interest | | (15) | (739) |
| Net current-period other comprehensive income attributable to MAA | | 288 | 21,455 |
| Ending balance | | $396 | $(4,599) |

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

9. Fair Value Disclosure of Financial Instruments

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

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

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

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Fixed rate notes payable at September 30, 2014 and December 31, 2013, totaled $2.46 billion and $2.29 billion, respectively, and had estimated fair values of $2.49 billion and $2.30 billion (excluding prepayment penalties), respectively, as of September 30, 2014 and December 31, 2013. The carrying value of variable rate notes payable (excluding the effect of interest rate swap and cap agreements) at September 30, 2014 and December 31, 2013, totaled $0.97 billion and $1.18 billion, respectively, and had estimated fair values of $0.88 billion and $1.12 billion (excluding prepayment penalties), respectively, as of September 30, 2014 and December 31, 2013. The valuation of our debt is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each debt instrument. This analysis reflects the contractual terms of the debt, and uses observable market-based inputs, including interest rate curves and credit spreads. The fair values of fixed debt are determined by using the present value of future cash outflows discounted with the applicable current market rate plus a credit spread. The fair values of variable debt are determined using the stated variable rate plus the current market credit spread. Our variable rates reset every 30 to 90 days and we conclude that these rates reasonably estimate current market rates. We have determined that inputs used to value our debt fall within Level 2 of the fair value hierarchy and therefore our fair market valuation of debt is considered Level 2 in the fair value hierarchy.

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

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

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

We have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, and as a result, all of our derivatives held as of September 30, 2014 and December 31, 2013 were classified as Level 2 of the fair value hierarchy.

The table below presents our assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013, aggregated by the level in the fair value hierarchy within which those measurements fall.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at September 30, 2014
(dollars in thousands)

| | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at September 30, 2014 |
|---|---|---|---|---|
| Assets | | | | |
| Derivative financial instruments | $— | $131 | $— | $131 |

| | | | | |
|---|---|---|---|---|
| Liabilities | | | | |
| Derivative financial instruments | $— | $13,132 | $— | $13,132 |

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Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2013
(dollars in thousands)

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

The fair value estimates presented herein are based on information available to management as of September 30, 2014 and December 31, 2013. These estimates are not necessarily indicative of the amounts we could ultimately realize. See also discussions in Item 1. Financial Statements – Notes to Consolidated Financial Statements, Note 8.

10. Shareholders' Equity of MAA

On September 30, 2014, 75,242,266 shares of common stock of MAA and 4,202,123 partnership units in the Operating Partnership were issued and outstanding, representing a total of 79,444,389 shares and units. At September 30, 2013, 42,744,978 shares of common stock of MAA and 1,701,955 partnership units in the Operating Partnership were outstanding, representing a total of 44,446,933 shares and units. There were 81,654 outstanding options as of September 30, 2014 compared to zero outstanding options as of September 30, 2013. The primary reason for the increase in shares, units, and options is due to the merger with Colonial. In connection with the merger, on October 1, 2013, we issued 31,916,765 shares and 2,574,631 partnership units.

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

During the three- and nine-month periods ended September 30, 2014, we issued no shares through our ATM programs. During the three- and nine-month periods ended September 30, 2013, we issued zero and 365,011 shares respectively through our ATM programs for net proceeds of zero and $24.8 million, respectively. The gross proceeds for these issuances were zero and $25.1 million, respectively. We have 4,134,989 shares remaining under our ATM program as of September 30, 2014.

During the three- and nine-month periods ended September 30, 2014, we issued 40,338 and 263,259 shares, respectively, related to the exercise of stock options. These exercises resulted in proceeds of $2.4 million and $11.9 million, respectively. During the three- and nine-month periods ended September 30, 2013, there were no stock options exercised.

During the nine months ended September 30, 2014, 9,292 shares of our common stock were acquired from employees to satisfy minimum tax withholding obligations that arose upon vesting of restricted stock granted pursuant to approved plans. During the nine months ended September 30, 2013, 4,805 shares were acquired for these purposes.

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

Interests in MAALP are represented by OP Units. As of September 30, 2014, there were 79,444,389 OP Units outstanding, 75,242,266 or 94.7% of which were owned by MAA, MAALP's general partner. The remaining 4,202,123 OP Units were owned by non-affiliated limited partners ("Class A Limited Partners"). As of September 30, 2013, there were 44,446,933 OP Units outstanding, 42,744,978 or 96.2% of which were owned by MAA and 1,701,955 of which were owned by the Class A Limited Partners. The increase in OP Units was due primarily to the merger with Colonial. In order to complete the merger, on October 1, 2013, we issued 34,491,396 OP Units.

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

Under the Partnership Agreement, the Operating Partnership may issue Class A OP Units and Class B OP Units. Class A OP Units may only be held by limited partners who are not affiliated with MAA, in its capacity as general partner of the Operating Partnership, while Class B OP Units may only be held by MAA, in its capacity as general partner of the Operating Partnership, and as of September 30, 2014, a total of 4,202,123 Class A OP Units in the Operating Partnership were held by limited partners unaffiliated with MAA, while a total of 75,242,266 Class B OP Units were held by MAA. In general, the limited partners do not have the power to participate in the management or control of the Operating Partnership's business except in limited circumstances including changes in the general partner and protective rights if the general partner acts outside of the provisions provided in the Partnership Agreement. The transferability of Class A OP Units is also limited by the Partnership Agreement.

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

At September 30, 2014, a total of 4,202,123 Class A OP Units were outstanding and redeemable for 4,202,123 shares of MAA common stock or $275,869,375, based on the closing price of MAA’s common stock on September 30, 2014 of $65.65 per share, at MAA’s option. At September 30, 2013, a total of 1,701,955 Class A OP Units were outstanding and redeemable for 1,701,955 shares of MAA common stock or $106,372,188, based on the closing price of MAA’s common stock on September 30, 2013 of $62.50 per share, at MAA’s option.

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

12. Legal Proceedings

The Company (by virtue of its merger with Colonial) and Colonial LP along with multiple other parties, are named defendants in lawsuits arising out of alleged construction deficiencies with respect to condominium units at Regatta at

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

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

Loss Contingencies

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

The assessment of whether a loss is probable or a reasonable possibility, and whether the loss or range of loss is reasonably estimable, often involve a series of complex judgments about future events. Among the factors that the Company considers in this assessment, including with respect to the matters disclosed in this Note, are the nature of existing legal proceedings and claims, the asserted or possible damages or loss contingency (if reasonably estimable), the progress of the matter, existing law and precedent, the opinions or views of legal counsel and other advisers, the Company's experience in similar matters, the facts available to the Company at the time of assessment, and how the Company intends to respond, or has responded, to the proceeding or claim. The Company's assessment of these factors may change over time as individual proceedings or claims progress. For matters where the Company is not currently able to reasonably estimate a range of reasonably possible loss, the factors that have contributed to this determination include the following: (i) the damages sought are indeterminate; (ii) the proceedings are in the early stages; (iii) the matters involve novel or unsettled legal theories or a large or uncertain number of actual or potential cases or parties; and/or (iv) discussions with the parties in matters that are expected ultimately to be resolved through negotiation and settlement have not reached the point where the Company believes a reasonable estimate of loss, or range of loss, can be made. In such instances, the Company believes that there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss or business impact, if any.

13. Discontinued Operations

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. We adopted ASU 2014-08 during the period ending March 31, 2014. Due to the early adoption of ASU 2014-08, we did not classify Brookwood Mall, Ansley Village, Colonial Village at North Arlington, Colonial Village at Vista Ridge, Greenbrook, Colonial Village at Inverness, Colonial Village at Charleston Place, Colonial Village at Huntleigh Woods, or Colonial Village at Ashford Place, which were sold during the nine months ended September 30, 2014, as discontinued operations.

Willow Creek, one of the properties that we sold during the nine months ended September 30, 2014, as well as the nine properties sold by us during 2013, have been classified as discontinued operations in the Consolidated Statements of Operations. One additional property, Colonial Promenade Nord du Lac, was classified as held for sale as of the end of the third quarter of 2014 and therefore was classified as a discontinued operation in the Consolidated Statements of Operations. We expect to complete the sale of Colonial Promenade Nord du Lac during the fourth quarter of 2014. Willow Creek and Colonial Promenade Nord du Lac are included in discontinued operations because they were shown in discontinued operations as of December 31, 2013, our latest fiscal year, and thus are not subject to ASU 2014-08.

The following table lists the communities classified as discontinued operations for the nine months ended September 30, 2014:

| Community | Units/Sq. Ft. | Date Sold | Location | Operating Segment |
|---|---|---|---|---|
| Willow Creek | 285 | January 15, 2014 | Columbus, Georgia | Non-same store and other |
| Colonial Promenade Nord du Lac | 195,536 | Held for Sale | New Orleans, Louisiana | Non-same store and other |

The following is a summary of income from continuing and discontinued operations attributable to MAA and noncontrolling interest for the three- and nine-month periods ended September 30, 2014 and 2013 (dollars in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Income from continuing operations: | | | | |
| Attributable to MAA | $66,609 | $15,665 | $107,083 | $50,761 |
| Attributable to noncontrolling interest | 3,722 | 632 | 6,005 | 1,973 |
| Income from continuing operations | $70,331 | $16,297 | $113,088 | $52,734 |
| | | | | |
| Income from discontinued operations: | | | | |
| Attributable to MAA | $367 | $28,619 | $6,372 | $73,792 |
| Attributable to noncontrolling interest | 21 | 1,140 | 359 | 2,563 |
| Income from discontinued operations | $388 | $29,759 | $6,731 | $76,355 |

The following is a summary of earnings from discontinued operations for MAA for the three- and nine-month periods ended September 30, 2014 and 2013 (dollars in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | | | | |
| Rental revenues | $795 | $2,295 | $2,384 | $11,830 |
| Other revenues | (2) | 243 | (7) | 1,088 |
| Total revenues | 793 | 2,538 | 2,377 | 12,918 |
| Expenses | | | | |
| Property operating expenses | 256 | 1,132 | 856 | 5,496 |
| Depreciation and amortization | — | 342 | 42 | 2,553 |
| Interest expense and other | 49 | 92 | 126 | 418 |
| Total expense | 305 | 1,566 | 1,024 | 8,467 |
| Income from discontinued operations before (loss) gain on sale | 488 | 972 | 1,353 | 4,451 |
| Net gain (loss) on insurance and other settlement proceeds on discontinued operations | 3 | (1) | — | (5) |
| (Loss) gain on sale of discontinued operations | (103) | 28,788 | 5,378 | 71,909 |
| Income from discontinued operations | $388 | $29,759 | $6,731 | $76,355 |

The following is a summary of earnings from discontinued operations for MAALP for the three- and nine-month periods ended September 30, 2014 and 2013 (dollars in thousands):

| | Three months ended September 30, | | Nine months ended September 30, |
|---|---|---|---|
| | 2014 | 2013 | |