

MID AMERICA APARTMENT COMMUNITIES INC

Form S-3/A

March 19, 2004

Table of Contents

As filed with the Securities and Exchange Commission on March 19, 2004

Registration No. 333-112469

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

MID-AMERICA APARTMENT COMMUNITIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Tennessee
(State or Other Jurisdiction of

62-1543819
(I.R.S Employer

Incorporation or Organization)

6584 Poplar Avenue, Suite 340 Memphis, Tennessee 38138

Identification Number)

(901) 682-6600.

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

H. Eric Bolton, Jr.

President and Chief Executive Officer

6584 Poplar Avenue, Suite 340 Memphis, Tennessee 38138 (901) 682-6600.

(Name, Address, Including Zip Code, and Telephone Number Including Area Code, of Agent For Service)

Copy to:

John A. Good, Esq.

Bass, Berry & Sims PLC

100 Peabody Place, Suite 900

Memphis, Tennessee 37103

(901) 543-5900

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement, as determined by the Registrant.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

Subject to completion, dated March 19, 2004

PROSPECTUS

MID-AMERICA APARTMENT COMMUNITIES, INC.

BY THIS PROSPECTUS, WE MAY OFFER UP TO \$200,000,000 OF

Debt Securities

Preferred Stock

Common Stock

Depository Shares

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

THE NEW YORK STOCK EXCHANGE LISTS OUR

Common Stock (symbol: MAA);

9¹/₄% Series F Cumulative Preferred Stock (symbol: MAA PrF); and

8.30% Series H Cumulative Preferred Stock (symbol: MAA PrH).

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

Investing in our securities involves risks. Before buying our securities, you should refer to the risk factors included in our periodic reports, in prospectus supplements relating to specific offerings and in other information filed with the Securities and Exchange Commission. You should also refer to Risk Factors beginning on page 3 of this prospectus.

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

This Prospectus is dated _____, 2004

Table of Contents**Table of Contents**

	Page
<u>Where You Can Find More Information</u>	1
<u>About This Prospectus</u>	1
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	2
<u>Risk Factors</u>	3
<u>Mid-America Apartment Communities, Inc.</u>	7
<u>Use of Proceeds</u>	7
<u>Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Distributions and Consolidated Ratio of Earnings to Fixed Charges</u>	8
<u>Description of Capital Stock</u>	8
<u>Description of Debt Securities</u>	15
<u>Description of Depositary Shares</u>	20
<u>Legal Ownership of Securities</u>	22
<u>Federal Income Tax Considerations</u>	25
<u>Plan of Distribution</u>	43
<u>Experts</u>	44
<u>Legal Matters</u>	44

In this prospectus, the terms we, us or our include Mid-America Apartment Communities, Inc., Mid-America Apartments, L.P. and their subsidiaries. Substantially all of our assets are held by, and all of our operations are conducted through, Mid-America Apartments, L.P., of which Mid-America Apartment Communities, Inc. is the sole general partner and owns an approximate 85.4% ownership interest as of December 31, 2003.

You should only rely on the information contained or incorporated by reference in this prospectus and in the prospectus supplement. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We will not make an offer to sell these securities in any jurisdiction where the offer and sale is not permitted. You should assume that the information appearing in this prospectus, as well as information we previously filed with the SEC and incorporated by reference, is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. In addition, the registration statement that contains this prospectus (including the exhibits to the registration statement) has been filed with the SEC. All of these filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy documents at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our reports, proxy statements and other information about us may also be inspected at The New York Stock Exchange, 20 Broad Street, New York, New York 10005.

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

Annual Report on Form 10-K for the year ended December 31, 2003;

Current Reports on Form 8-K filed with the SEC on January 23, 2004, January 26, 2004, January 28, 2004, February 3, 2004, February 3, 2004 and February 13, 2004;

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

the description of our 9 1/4% Series F Cumulative Redeemable Preferred Stock contained in Form 8-A/A filed with the SEC on October 11, 2002; and

the description of our 8.30% Series H Cumulative Redeemable Preferred Stock contained in Form 8-A filed with the SEC on July 10, 2003.

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

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC. By using a shelf registration statement, we may sell from time to time in one or more offerings up to an aggregate amount of \$213,251,881 of any combination of the securities described in this prospectus. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will describe the securities being offered and the terms of that offering. The prospectus supplement may also add to, update or change information contained in this prospectus. Before purchasing any securities, you should carefully read both this prospectus and any prospectus supplement, together with all information, including that described in "Where You Can Find More Information" above, incorporated by reference either in this prospectus or any prospectus supplement.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document, including the documents incorporated by reference in this document, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements, by their nature, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in a forward-looking statement. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, capital expenditures, capital raising activities, rent growth, occupancy and expense growth or control. Examples of forward-looking statements also include statements regarding our expectations, beliefs, plans, goals, objectives and future financial or other performance. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and variations of such words and similar expressions are intended to identify such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made; and, except to fulfill our obligations under the United States securities laws, we undertake no obligation to update any such statement to reflect events or circumstances after the date on which it is made.

Examples of factors that can affect our expectations, beliefs, plans, goals, objectives and future financial or other performance include, but are not limited to, the following:

- competition from other apartment communities,
- overbuilding of new apartment units in our markets,
- increased operating costs,
- inability to rent apartment units on favorable economic terms,
- changes in interest rate levels, generally,
- the level of indebtedness on our properties,
- the fact that a substantial amount of our debt is variable rate debt,
- inability to acquire additional apartment units on favorable economic terms,
- increasing insurance costs and property taxes, and
- adverse legislative or regulatory tax changes.

All of the foregoing factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond our control. New factors emerge from time to time that could adversely affect our business. It is not possible for us to predict all of the factors that may from time to time affect our business or to assess the potential impact of each such factor. You are advised to read carefully the section of this prospectus entitled Risk Factors beginning on page 5 for a more in depth discussion of the material risks to our business.

Table of Contents

RISK FACTORS

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

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

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

competition from other apartment communities;

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

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

our inability to rent properties on favorable economic terms;

changes in governmental regulations and the related costs of compliance;

changes in tax laws and housing laws including the enactment of rent control laws or other laws regulating multifamily housing;

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

the relative illiquidity of real estate investments.

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

Our Current Debt Service And Distribution Rate Exceed Our Cash Available For Distribution.

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We currently have a substantial amount of debt. Payments of principal and interest on borrowings and the payment of distributions at our current rate presently exceed our cash available for distribution. Accordingly, we are borrowing on existing credit lines to pay our distributions at current rates. Any significant decline in our operating results could leave us with insufficient cash resources to service our debt, operate the apartment communities or pay distributions that we must pay in order for us to maintain our qualification as a REIT. We intend to keep our total debt below 60% of the undepreciated book value of our assets, although our charter and bylaws do not limit our debt levels. Circumstances may cause us to exceed that target from time to time. As of December 31, 2003, our ratio of debt to undepreciated book value was approximately 54%. Our Board of Directors can modify this policy at any time that could allow us to become more highly leveraged and decrease our ability to make distributions to our shareholders.

Variable Interest Rates May Prevent Us From Making Distributions.

At December 31, 2003, approximately \$223 million of our debt bore interest at a variable rate. We may incur additional debt in the future that also bears interest at variable rates. Variable-rate debt creates higher debt service requirements if market interest rates increase, which would adversely affect our funds from operations and the amounts available to pay distributions to shareholders. Our \$804 million credit facility with Fannie Mae

Table of Contents

is predominately a floating rate facility, the interest rates on which have been hedged by means of a number of interest rate swaps and caps. Upon the termination of these swaps and caps, we will be exposed to the risks of varying interest rates.

Inability To Access Debt Or Equity Capital Markets Or Loss of Existing Credit Facilities May Adversely Affect Our Financial Condition And Ability To Pay Distributions.

As a REIT, we are required to pay out as distributions to shareholders substantially all our earnings. Moreover, our business of owning and operating real estate assets is a capital-intensive business. Accordingly, we are heavily dependent upon availability of debt and equity capital to finance acquisitions and growth in our business. In addition, our existing credit facilities must be renewed from time to time, and our lenders have the option to refuse to renew our credit facilities. From time to time in the recent past, REITs have had difficulty accessing capital in the equity markets. Also, availability of debt financing at an acceptable cost may vary from time to time. Our inability to renew our existing credit facilities, access equity capital or obtain debt financing at an acceptable cost could have a material adverse effect on our growth, financial condition and operating results.

Each of our credit facilities is subject to various covenants and conditions on usage. If we were to fail to satisfy a condition to borrowing, the available credit under one or more of our credit facilities could not be drawn, which could adversely affect our liquidity. Moreover, if we were to fail to make a payment or violate a covenant under a credit facility, after applicable cure periods one or more of our lenders could declare a default, accelerate the due date for repayment of all amounts outstanding and/or foreclose on properties securing such facilities. In order to repay such debt, we could be required to, among other things, sell properties, possibly at losses or at non-optimal prices, suspend or reduce the rate of our dividend or file a petition in bankruptcy to reorganize or liquidate the company.

Increasing Insurance Costs May Negatively Impact Our Financial Condition.

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

Noncompliance With Government Regulations May Affect Operating Results.

Environmental Matters

Phase I environmental site assessments have been obtained on all of our apartment communities. The purpose of Phase I environmental site assessments is to identify potential sources of contamination for which we may be responsible and to assess the status of environmental regulatory compliance. The Phase I environmental site assessments did not reveal any environmental condition, liability or compliance concern that we believe would have a material adverse effect on our business, assets or results of operations, nor are we aware of any such condition, liability or concern by any other means. However, it is possible that the environmental site assessments relating to any one of the properties did not reveal all environmental conditions, liabilities or compliance concerns. It is also possible that there are material environmental conditions,

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liabilities or compliance concerns that arose at a property after the related review was completed. If environmental contamination exists or existed at an apartment community, we may be liable for the costs of removal or remediation of the contamination and may be liable for personal injury or similar claims by private plaintiffs. Moreover, the existence of an environmental contamination at an apartment community could adversely affect the occupancy of the apartment community and our ability to sell or borrow against that apartment community.

Table of Contents

Americans With Disabilities Act Compliance

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

Fair Housing Amendments Act Compliance

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

Our Failure To Qualify As A REIT Would Have A Substantial Negative Effect On Our Ability To Pay Distributions

We believe that we operate in a manner that enables us to meet the requirements for qualification as a REIT for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the Internal Revenue Service that we qualify as a REIT. We have, however, received an opinion from the law firm of Bass, Berry & Sims PLC that we met the requirements for qualification as a REIT for the taxable years ended December 31, 1999 through 2002, and that we are in a position to continue such qualification. You should be aware that opinions of counsel are not binding on the IRS or any court. Furthermore, the conclusions stated in the opinion are conditioned on, and our continued qualification as a REIT will depend on, our meeting various requirements.

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

Limits On Ownership Of Shares May Result in Adverse Consequences

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

will consider the transfer to be null and void;

will not reflect the transaction on our books;

may institute legal action to enjoin the transaction;

will not pay dividends or other distributions with respect to those shares;

will not recognize any voting rights for those shares;

Table of Contents

will consider the shares held in trust for our benefit; and

will either direct you to sell the shares and turn over any profit to us, or we will redeem the shares. If we redeem the shares, you will be paid a price equal to the lesser of:

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

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

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

you may lose your power to dispose of the shares;

you may not recognize profit from the sale of such shares if the market price of the shares increases; and

you may be required to recognize a loss from the sale of such shares if the market price decreases.

Ability Of Board Of Directors To Change Certain Policies

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

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

Ownership Limit

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

Preferred Stock

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

474,500 shares of 9¹/₄% Series F Cumulative Redeemable Preferred Stock;

400,000 shares of 8⁵/₈% Series G Cumulative Redeemable Preferred Stock; and

6,200,000 shares of 8.30% Series H Cumulative Redeemable Preferred Stock

Tennessee Anti-Takeover Statutes

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

Table of Contents

MID-AMERICA APARTMENT COMMUNITIES, INC.

We are a Memphis, Tennessee-based real estate investment trust, or REIT. As of December 31, 2003, we owned, or had an ownership interest in, and operated 127 apartment communities containing 35,734 apartment units in 12 states. Our apartment communities appeal to middle and upper income residents primarily in large to mid-size cities in the southeastern United States and Texas. Approximately 75% of our apartment units are located in Tennessee, Georgia, Florida and Texas markets. As of December 31, 2003, our apartment communities had an average occupancy rate of 92.7%. We presently employ approximately 1,100 people. Currently our executive officers and directors beneficially own approximately 10.3% of our common stock.

Our strategic focus is to provide our residents high quality apartment units in attractive community settings, characterized by extensive landscaping and attention to aesthetic detail. We utilize our experience and expertise in maintenance, landscaping and management to provide highly competitive apartment communities, with a goal of maintaining high occupancy levels and increasing per unit average rentals. We manage expenses through our system of detailed management reporting and accountability in order to achieve increases in cash flow from operations. We seek to increase cash flow from operations and earnings per share to maximize shareholder value through a balanced strategy of internal and external growth.

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

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

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

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

pursue joint venture relationships to generate additional fee income;

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

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

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

Our principal executive offices are located at 6584 Poplar Avenue, Suite 340, Memphis, Tennessee 38138 and our telephone number is (901) 682-6600.

USE OF PROCEEDS

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

Table of Contents

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

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

	YEAR ENDED DECEMBER 31,					
	1998	1999	2000	2001	2002	2003
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Distributions	1.2x	1.2x	1.2x	1.2x	1.0x	1.1x
Ratio of Earnings to Fixed Charges	1.5x	1.6x	1.5x	1.5x	1.3x	1.4x

For the purpose of calculating the consolidated ratio of earnings to combined fixed charges and preferred stock dividends, earnings consist of income from continuing operations before loss from investments in unconsolidated entities, plus fixed charges less capitalized interest. Fixed charges consist of interest expense, capitalized interest, amortized premiums, discounts and capitalized expenses relating to debt and an estimate of the interest component of rent expense.

DESCRIPTION OF CAPITAL STOCK

The summary of the terms of the shares of our capital stock set forth below does not purport to be complete and is subject to and qualified in its entirety by reference to our Amended and Restated Charter as further amended, and our Amended and Restated bylaws, both of which we may amend at a later time and both of which are incorporated in this prospectus by reference. References to the TBCA are to the Tennessee Business Corporation Act, as amended.

General

Our authorized capital stock consists of 50,000,000 shares of common stock and 20,000,000 shares of preferred stock. Each outstanding share of common stock entitles the holder to one vote on all matters presented to shareholders for a vote.

Common Stock

Subject to such preferential rights granted by the Board of Directors in connection with the issuance of shares of our preferred stock, holders of shares of common stock are entitled to one vote per share on all matters to be voted on by shareholders and are entitled to receive ratably such

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dividends as may be declared in respect of the common stock by the Board of Directors in its discretion from funds legally available therefor. In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all assets remaining after payment of all debts and other liabilities and any liquidation preference of the holders of our then-outstanding preferred stock. Holders of common stock have no subscription, redemption, conversion or preemptive rights. Matters submitted for shareholder approval generally require a majority vote of the shares present and voting thereon. The outstanding shares of common stock are fully paid and nonassessable.

Preferred Stock

The following description of the terms of our preferred stock sets forth general terms and provisions of our preferred stock to which a prospectus supplement may relate. Specific terms of any series of preferred stock offered by a prospectus supplement will be described in that prospectus supplement. The description set forth below is subject to and qualified in its entirety by reference to the articles of amendment to our charter fixing the preferences, limitations and relative rights of a particular series of preferred stock.

Table of Contents

General

Under our charter, our Board of Directors is authorized, without further shareholder action, to provide for the issuance of up to 20,000,000 shares of preferred stock, in such series, with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or other provisions, as may be fixed by the Board of Directors. As a result, the Board of Directors may afford the holders of any series or class of preferred stock preferences, powers, and rights, voting or otherwise, senior to the rights of holders of common stock. As of the date of this prospectus, our Board of Directors has designated 2,000,000 shares of 9.5% Series A Cumulative Preferred Stock, of which no shares are outstanding, 1,938,830 shares of 8 ⁷/₈% Series B Cumulative Preferred Stock, of which no shares are outstanding, 2,000,000 shares of 9 ³/₈% Series C Cumulative Preferred Stock, of which no shares are outstanding, 1,000,000 shares of 9.5% Series E Cumulative Preferred Stock, of which no shares are outstanding, 3,000,000 shares of 9 ¹/₄% Series F Cumulative Redeemable Preferred Stock, of which 474,500 shares are outstanding, 400,000 shares of 8 ³/₈% Series G Cumulative Redeemable Preferred Stock, of which 400,000 shares are outstanding and 6,200,000 shares of 8.30% Series H Cumulative Redeemable Preferred Stock, of which 6,200,000 shares are outstanding. The descriptions of our Series F preferred stock, our Series G preferred stock, and our Series H preferred stock are contained in documents filed with the SEC.

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

Our preferred stock will, when issued, be fully paid and nonassessable. Unless otherwise specified in the prospectus supplement relating to a particular series of preferred stock, each series will rank on a parity as to dividends and distributions in the event of a liquidation with each other series of preferred stock and, in all cases, will be senior to our common stock.

Dividend Rights

Holders of preferred stock of each series will be entitled to receive, when, as and if declared by the Board of Directors, out of our assets legally available for distribution, cash dividends at such rates and on such dates as are set forth in the prospectus supplement relating to such series of preferred stock. Such rate may be fixed or variable or both and may be cumulative, noncumulative or partially cumulative.

If the applicable prospectus supplement so provides, as long as any shares of preferred stock are outstanding, no dividends will be declared or paid or any distributions be made on our common stock, other than a dividend payable in common stock, unless the accrued dividends on each series of preferred stock have been fully paid or declared and set apart for payment and we will have set apart all amounts, if any, required to be set apart for all sinking funds, if any, for each series of preferred stock.

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

per share on such series of preferred stock and such other series bear to each other.

Table of Contents

Each series of preferred stock will be entitled to dividends as described in the prospectus supplement relating to such series, which may be based upon one or more methods of determination. Different series of preferred stock may be entitled to dividends at different dividend rates or based upon different methods of determination. Except as provided in the applicable prospectus supplement, no series of preferred stock will be entitled to participate in our earnings or assets.

Rights Upon Liquidation

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

Redemption

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

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

Except as indicated in the applicable prospectus supplement, our preferred stock is not subject to any mandatory redemption at the option of the holder.

Sinking Fund

The prospectus supplement for any series of preferred stock will state the terms, if any, of a sinking fund for the purchase or redemption of that series.

Conversion And Preemptive Rights

The prospectus supplement for any series of preferred stock will state the terms, if any, on which shares of that series are convertible into or redeemable for shares of common stock or another series of preferred stock. Our preferred stock will have no preemptive rights.

Table of Contents

Voting Rights

Except as indicated in the prospectus supplement relating to a particular series of preferred stock, or except as expressly required by Tennessee law, a holder of preferred stock will not be entitled to vote. Except as indicated in the prospectus supplement relating to a particular series of preferred stock, in the event we issue full shares of any series of preferred stock, each such share will be entitled to one vote on matters on which holders of such series of preferred stock are entitled to vote.

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

Charter And Bylaw Provisions

The Tennessee Business Corporation Act, our charter and our bylaws govern shareholders' rights and related matters. Certain provisions of our charter and bylaws, which are summarized below, may make it more difficult to change the composition of the Board of Directors and may discourage or make more difficult any attempt by a person or group to obtain control of us.

Voting Requirement

Our charter may not be amended without the affirmative vote of at least a majority of the shares entitled to vote generally in the election of directors, voting as a single voting group. Our bylaws may be amended by either the affirmative vote of a majority of all shares outstanding and entitled to vote generally in the election of directors, voting as a single group, or by an affirmative vote of a majority of the Board of Directors then holding office, unless the shareholders prescribe that any such bylaw may not be amended or repealed by the Board of Directors. Notwithstanding the foregoing, we cannot take any action intended to terminate our qualification as a REIT without the affirmative vote of at least two-thirds of the outstanding shares of common stock.

Special Meetings

Under our bylaws, shareholders may call special meetings of the shareholders only if such shareholders hold outstanding shares representing more than 50% of all votes entitled to be cast on any issue proposed to be considered at any such special meeting.

Staggered Board Of Directors

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Our Board of Directors is divided into three classes of directors serving staggered three year terms. Under the listing standards of the New York Stock Exchange, a majority of our directors must be persons who are independent within the meaning of the listing standards, meaning generally that they have no material financial relationship with us other than arising out of their directorships. In addition, our charter provides that a majority of the members of our Board of Directors may not be our officers or employees. This requirement and the provisions for staggered terms of directors may not be changed without approval of a majority of the shareholders or by 80% of the members of the Board of Directors. Certain provisions of our charter, including the use of a staggered board, may render more difficult a change in control of us or removal of incumbent management.

Advance Notice Of Director Nominations And New Business

Our bylaws provide that with respect to an annual meeting of shareholders, the proposal of business to be considered by shareholders may be made only (i) by or at the direction of the Board of Directors, or (ii) by a

Table of Contents

shareholder who has complied with the advance notice procedures set forth in the bylaws. In addition, with respect to any meeting of shareholders, nominations of persons for election to the Board of Directors may be made only (x) by or at the direction of the Board of Directors or (y) by any shareholder who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in the bylaws.

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

Limitation Of Directors Liability

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

Tennessee Anti-Takeover Statutes

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

Under the Tennessee Investor Protection Act, unless a company's board of directors has recommended a takeover offer to shareholders, no offeror beneficially owning 5% or more of any class of equity securities of the offeree company, any of which was purchased within one year prior to the proposed takeover offer (unless the offeror, before making such purchase, has made a public announcement of his intention with respect to changing or influencing the management or control of the offeree company, has made a full, fair and effective disclosure of such intention to the person from whom he intends to acquire such securities and has filed with the Tennessee Commissioner of Commerce and Insurance (the Commissioner) and the offeree company a statement signifying such intentions and containing such additional information as the Commissioner by rule prescribes), may offer to acquire any class of equity security of an offeree company pursuant to a tender offer if after the acquisition thereof the offeror would be directly or indirectly a beneficial owner of more than 10% of any class of outstanding equity securities of the company (a Takeover Offer). Such an offeror must provide that any equity securities of an offeree company deposited or tendered pursuant to a Takeover Offer may be withdrawn by an offeree at any time within seven days from the date the offer has become effective following filing with the Commissioner and the offeree company and public announcement of the terms or after 60 days from the date the offer has become effective. If an offeror makes a Takeover Offer for less than all the outstanding equity securities of any class, and if the number of securities tendered is greater than the number the offeror has offered to accept and make for, the securities shall be accepted pro rata. If an offeror varies the terms of a Takeover Offer before its expiration date by increasing the consideration offered to offeree, the offeror shall make the increased consideration for all equity securities accepted, whether accepted before or after the variation in the terms of the offer.

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Under the Tennessee Business Combination Act, subject to certain exceptions, no Tennessee corporation may engage in any business combination with an interested shareholder for a period of five years following

Table of Contents

the date that such shareholder became an interested shareholder unless prior to such date the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder.

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

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

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

Ownership Limitations

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

Table of Contents

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

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

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

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

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

Other Matters

The transfer agent and registrar for our common stock is Wachovia Bank N.A., Charlotte, North Carolina.

Pursuant to the Tennessee Business Corporation Act, we cannot merge with or sell all or substantially all of our assets except pursuant to a resolution approved by the affirmative vote of a majority of the outstanding shares of common stock entitled to vote on the resolution. In addition, the partnership agreement of Mid-America Apartments, L.P. requires that any merger or sale of all or substantially all of the assets of or dissolution of the partnership be approved by the affirmative vote of a majority of the outstanding units.

Table of Contents**DESCRIPTION OF DEBT SECURITIES**

The following description, together with the additional information we include in any applicable prospectus supplements, summarizes the material terms and provisions of the debt securities that we may offer under this prospectus. While the terms we have summarized below will apply generally to any future debt securities we may offer, we will describe the particular terms of any debt securities that we may offer in more detail in the applicable prospectus supplement. If we indicate in a prospectus supplement, the terms of any debt securities we offer under that prospectus supplement may differ from the terms we describe below.

The debt securities will be our direct unsecured general obligations and may include debentures, notes, bonds and/or other evidences of indebtedness. The debt securities will be either senior debt securities or subordinated debt securities. The debt securities will be issued under one or more separate indentures. Senior debt securities will be issued under a senior indenture, and subordinated debt securities will be issued under a subordinated indenture. We use the term "indentures" to refer to both the senior indenture and the subordinated indenture. The indentures will be qualified under the Trust Indenture Act. We use the term "debenture trustee" to refer to either the senior trustee or the subordinated trustee, as applicable.

The following table shows certain information about the number of stock options and warrants exercised during the year ended June 30, 2003 and the number of stock options and warrants owned by the named executive officers at June 30, 2003. Options in the columns marked "unexercisable" are subject to vesting and will be forfeited if a named executive officer's employment with us is terminated for certain reasons.

50,000

(1) Ms. Bautina joined Contango in November 2001.

The following table shows certain information about the number of stock options and warrants exercised during the year ended June 30, 2003 and the number of stock options and warrants owned by the named executive officers at June 30, 2003. Options in the columns marked "unexercisable" are subject to vesting and will be forfeited if a named executive officer's employment with us is terminated for certain reasons.

Name	Shares Acquired on	Value Realized (1)	Number of Unexercised Options and Warrants at June 30, 2003 (2)		Value of Unexercised In-the-Money Options and Warrants at June 30, 2003 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Kenneth R. Peak	40,000	\$ 30,800	920,000	140,000	\$ 1,567,800	\$ 162,200
William H. Gibbons	25,000	\$ 34,750	65,000	35,000	\$ 21,950	\$ 46,550
Lesia Bautina		\$	43,333	106,667	\$ 36,567	\$ 94,933

(1)

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The value realized upon the exercise of a stock option is equal to the difference between the closing price of our Common Stock on the American Stock Exchange on the date of exercise and the exercise price of the stock option or warrant multiplied by the number of shares acquired.

- (2) The value of each unexercised in-the-money stock option is equal to the difference between the closing price of our Common Stock on the American Stock Exchange on June 30, 2003 of \$4.09 per share and the exercise price of the stock option or warrant.

Employment Agreements

We have no employment agreement with any executive officer.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Aggregate fees for professional services rendered to us by Grant Thornton LLP for the years ended June 30, 2003 and 2002 were:

Category of Service	Year Ended June 30,	
	2003	2002(1)
Audit	\$ 84,750	\$ 32,500
Tax	63,250	
All other		10,000
	<u>\$ 148,000</u>	<u>\$ 42,500</u>

- (1) On June 10, 2002, our Board of Directors determined, upon recommendation of the Audit Committee, to appoint Grant Thornton LLP as our independent public accountants, replacing Arthur Andersen LLP on the same date. During the period of July 1, 2001 to June 10, 2002, fees paid to Arthur Andersen consisted of \$37,500 in audit fees and \$97,500 of fees in connection with matters related to the audit of natural gas and oil properties acquired and the filing of a registration statement on Form S-1.

The audit fees for the years ended June 30, 2003 and 2002 were for professional services rendered in connection with the audit of our 2003 and 2002 consolidated financial statements and assistance with review of various documents filed with the SEC. Tax fees for the years ended June 30, 2003 and 2002 were for services related to tax compliance, including the preparation of tax returns. Grant Thornton did not provide us any financial information systems design or implementation services during years ended June 30, 2003 and 2002.

Contango expects that representatives of Grant Thornton will be present at the Annual Meeting and will be given the opportunity to make a statement if they desire to do so and to respond to appropriate questions.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee consists of three members, Joseph S. Compofelice (chairman), Jay D. Brehmer and Darrell W. Williams, each of which is independent as defined in Section 121(a) of the American Stock Exchange listing standards. The Audit Committee assists the Board of Directors in monitoring:

n

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The integrity of Contango's financial reporting process and systems of internal controls regarding finance, accounting and legal and regulatory compliance; and

n The independence and performance of Contango's independent accounts.

The Audit Committee's specific responsibilities are set forth in its charter, as amended, which is attached as Appendix A to this Proxy Statement.

The Audit Committee has reviewed and discussed Contango's audited consolidated balance sheet as of June 30, 2003 and 2002 and consolidated statements of income, cash flows and stockholders' equity for the two years ended June 30, 2003 with Contango's management. The Audit Committee has discussed with Grant Thornton LLP, Contango's independent auditors,

the matters required to be discussed by Statement of Auditing Standards No. 61 (concerning the accounting methods used in the financial statements).

The Audit Committee has also received and reviewed written disclosures and the letter from Grant Thornton LLP required by Independent Standards Board No. 1 (concerning matters that may affect an auditor's independence) and has discussed with Grant Thornton LLP their independence. Based on the foregoing review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Contango's Annual Report on Form 10-KSB for the year ended June 30, 2003 for filing with the Securities and Exchange Commission.

This report is submitted on behalf of the Audit Committee.

Joseph S. Compofelice, Chairman

Jay D. Brehmer

Darrell W. Williams

PERFORMANCE GRAPH

The following graph compares the yearly percentage change from July 1, 1999 until June 30, 2003 in the cumulative total stockholder return on our Common Stock to the cumulative total return on the Russell 2000 Stock Index and a peer group of five independent oil and gas exploration companies selected by us. Each of the companies selected had a market capitalization of less than \$200 million as of June 30, 2003. The companies in our selected peer group are Brigham Exploration Company, Carrizo Oil & Gas, Inc., Edge Petroleum Corp., Goodrich Petroleum Corp. and PetroQuest Energy, Inc. Our Common Stock began trading on the American Stock Exchange on January 19, 2001 and previously traded on the Nasdaq over-the-counter Bulletin Board. The graph assumes that a \$100 investment was made in our Common Stock and each index on June 30, 1999 and that all dividends were reinvested. The stock performance for our Common Stock is not necessarily indicative of future performance.

	As of June 30,				
	1999	2000	2001	2002	2003
Contango Oil & Gas Company	100	1,000	1,905	1,665	2,045
Russell 2000 Stock Index	100	113	112	101	98
Peer Group Composite	100	158	231	181	179

DEADLINE FOR RECEIPT OF STOCKHOLDER PROPOSALS FOR THE ANNUAL**MEETING OF STOCKHOLDERS IN 2004**

Proposals of stockholders intended to be presented at next year's Annual Meeting of Stockholders must be received by Kenneth R. Peak at Contango Oil & Gas Company's principal

office located at 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098 no later than June 7, 2004. If the date of the Annual Meeting for 2004 is moved by more than 30 days from the date of this year's Annual Meeting, then the deadline for receiving stockholder proposals shall be a reasonable time before the Company begins to print and mail the proxy statement for the 2004 annual meeting.

ADVANCE NOTICE PROCEDURES FOR NEXT YEAR'S ANNUAL MEETING

The Company advises stockholders that, until further notice, August 26, 2004 is the date after which notice of a stockholder-sponsored proposal submitted outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934 (i.e. a proposal to be presented at the next Annual Meeting of Stockholders that has not been submitted for inclusion in the Company's Proxy Statement) will be considered untimely under the Commission's proxy rules.

OTHER PROPOSED ACTIONS

The Board is not aware of any other business that will come before the Annual Meeting, but if any such matters are properly presented, the proxies solicited hereby will be voted in accordance with the best judgment of the persons holding the proxies. All shares represented by duly executed proxies will be voted at the Annual Meeting.

AVAILABILITY OF CERTAIN DOCUMENTS REFERRED TO HEREIN

THIS PROXY STATEMENT REFERS TO CERTAIN DOCUMENTS OF THE COMPANY THAT ARE NOT PRESENTED HEREIN OR DELIVERED HERewith. SUCH DOCUMENTS ARE AVAILABLE TO ANY PERSON, INCLUDING ANY BENEFICIAL OWNER, TO WHOM THIS PROXY STATEMENT IS DELIVERED, UPON ORAL OR WRITTEN REQUEST, WITHOUT CHARGE, DIRECTED TO KENNETH R. PEAK, CONTANGO OIL & GAS COMPANY, 3700 BUFFALO SPEEDWAY, SUITE 960, HOUSTON, TEXAS 77098, TELEPHONE NUMBER (713) 960-1901. IN ORDER TO ENSURE TIMELY DELIVERY OF THE DOCUMENTS, SUCH REQUESTS SHOULD BE MADE BY OCTOBER 24, 2003.

By order of the Board of Directors,

/s/ KENNETH R. PEAK

Kenneth R. Peak

Chairman, Chief Executive Officer and Secretary

[Form of Proxy]

CONTANGO OIL & GAS COMPANY

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR
THE ANNUAL MEETING OF STOCKHOLDERS CALLED FOR NOVEMBER 7, 2003**

The undersigned stockholder(s) of CONTANGO OIL & GAS COMPANY, a Delaware corporation, having received the Notice of Annual Meeting of Stockholders and Proxy Statement dated September 29, 2003, hereby appoints Kenneth R. Peak as Proxy, with the power to appoint a substitute and hereby authorizes him to represent the undersigned at the Annual Meeting of Stockholders of CONTANGO OIL & GAS COMPANY to be held on Friday, November 7, 2003 at 9:00 a.m., Central Time, at 3700 Buffalo Speedway, Second Floor, Houston, Texas 77098, and at any adjournments thereof, and to vote all shares of Common Stock which the undersigned would be entitled to vote thereat on all matters set forth below, as described in the accompanying Proxy Statement:

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ALL OF THE DIRECTORS NOMINATED BY THE BOARD. THE PERSON NAMED AS PROXY WILL USE HIS DISCRETION WITH RESPECT TO ANY MATTER REFERRED TO IN PROPOSAL 2. THIS PROXY IS REVOCABLE AT ANY TIME BEFORE IT IS

IMPORTANT PLEASE SIGN ON THE OTHER SIDE

1. ELECTION OF
DIRECTORS:

“ **FOR** all nominees listed below,
except as indicated to the contrary
below.

“ **WITHHELD AUTHORITY** to vote for all nominees listed
below.

Nominees: Kenneth R. Peak Joseph S. Compofelice
 Jay D. Brehmer Darrell W. Williams

(INSTRUCTION: To vote against any nominee, write that nominee's name in the space provided below.)

2. IN HIS DISCRETION, THE PROXY IS AUTHORIZED

TO VOTE UPON SUCH OTHER BUSINESS AS MAY

PROPERLY COME BEFORE THE MEETING.

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY IN THE
ACCOMPANYING PREPAID ENVELOPE.**

Dated: _____, 2003

Signature

Signature

(Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please set forth your full title. If signer is a corporation, please sign the full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.)

CONTANGO OIL & GAS COMPANY

Audit Committee Charter

As Amended and Approved June 23, 2003

Purpose and Composition

The Audit Committee (Committee) shall be a standing committee of the Board of Directors (Board). The Committee shall assist, advise and report regularly to the Board in fulfilling its oversight responsibilities related to:

The integrity of the Company's financial statements;

The Company's compliance with legal and regulatory requirements;

The independent auditor's qualifications and independence;

The performance of the Company's outside auditors; and

The Company's Code of Ethics.

In meeting its responsibilities, the Committee is expected to provide an open channel of communication with management, the outside auditors and the Board.

The Committee is composed of at least three members of the Board who are independent within the meaning set forth by the Securities and Exchange Commission (SEC). Committee members shall be appointed and/or removed by the Board. No member of the Committee shall be removed except by a majority vote of the independent directors then in office. Committee members shall be free from any relationships that would interfere with or give the appearance of interfering with the exercise of independent judgment as a Committee member. All members shall have a requisite working familiarity with basic finance and accounting practices in compliance with the requirements of the SEC. Furthermore, at least one member of the Committee shall have sufficient accounting or financial expertise and be designated as a financial expert in compliance with the requirements of the SEC.

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. Such authority includes but is not limited to:

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Retain outside counsel, accountants, outside advisors, consultants or others to assist in the conduct of an investigation or as it determines appropriate to advise or assist in the performance of its functions;

Seek any information it requires from employees or external parties. Employees and external parties will be directed to cooperate and comply with the Committee's requests; and

Meet with Company officers, outside auditors or outside counsel as necessary.

The members of the Committee shall be elected by the Board of Directors at the annual organizational meeting of the Board of Directors or until their successors shall be duly elected and qualified. Unless a Chairman is elected by the full Board, the members of the Committee may designate a Chairman by majority vote of the full Committee membership.

All Committee members must be unaffiliated with the Company and may not accept any compensation (including consulting, advisory or other compensatory fees) other than for services as a director.

Duties and Responsibilities

Management is responsible for preparing the Company's financial statements and assuring that the Company has adequate internal controls in place. The Company's outside auditors are responsible for auditing the financial statements and assessing the Company's internal controls. The activities of the Committee are in no way designed to supersede or alter these responsibilities.

Duties and responsibilities of the Committee shall include, but are not limited to the following:

1. Management is responsible for preparing the Company's financial statements and assuring that the Company has adequate internal controls in place. The Company's outside auditors are responsible for auditing the financial statements and assessing the Company's internal controls. The activities of the Committee are in no way designed to supersede or alter these responsibilities.
2. Review with management and the outside auditors the annual and quarterly financial results for the Company, including the disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations. Also review the annual report to stockholders and the annual/quarterly reports on Forms 10-K/10-Q filed with the SEC.
3. The outside auditors will have discussions with the Committee on the quality of the accounting policies and practices used by the Company, any alternative treatments of financial information, their ramifications and the outside auditors' preferred treatments any other communications required to be discussed by Statement of Auditing Standards No. 61, as amended.
4. Oversee and monitor the work of the outside auditors to ensure they are independent of management and their objectivity is not impaired, recognizing that the outside auditors are accountable to the Board and the Committee. Review and resolve, if necessary, any disagreements between management and the outside auditors in connection with the annual audit or the preparation of the financial statements.
5. Annually select and appoint outside auditors, consider the independence and effectiveness of the outside auditors, approve the fees and other compensation to be paid to the outside auditors and be responsible for oversight of the outside auditors. The Committee shall receive the written disclosures required by generally accepted auditing standards. On an annual basis, the Committee shall require the outside auditors to provide the Committee with a written statement delineating all relationships between the outside auditors and the Company. The Committee shall actively engage in a dialogue with the outside auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the outside auditors. The Committee shall recommend that the Board of Directors take appropriate action in response to the outside auditors' report to satisfy itself of the outside auditors' independence.

6. Annually report to the Board the outside auditing firm to be retained and preapprove all audit and non-audit services and fees. The Committee will review the scope of any non-audit services to be performed by the outside auditors and determine its impact on the auditors' independence.
7. The outside auditors may not perform the following non-audit services: (i) bookkeeping related to accounting records or financial statements; (ii) financial information systems design and implementation services; (iii) appraisal or valuation services involving fairness opinions; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management or human resource functions; (vii) broker, dealer, investment adviser or investment banker services; (ix) legal services and expert services unrelated to the audit; and (x) any other services that the Public Accounting Oversight Board determines impermissible. All other non-auditing services provided by the outside auditors including tax compliance, tax planning and tax advice shall be approved in advance by the Committee.
8. Review significant accounting and reporting issues, including recent professional and regulatory pronouncements or proposed pronouncements and understand their impact on the Company's financial statements.
9. Assess and monitor the overall control environment of the Company through discussion with management and the outside auditors. Assess the extent to which the audit plans of the outside auditors can be relied on to identify material internal control weaknesses or fraud.
10. Oversee and assess the Company's policies, practices and compliance with its Code of Ethics.
11. Direct and supervise special audit inquiries by the outside auditors as the Board of Directors or the Committee may request.
12. Provide a report in the proxy statement stating that the Committee has reviewed and discussed the financial statements with management and the auditors. In addition, this report will include a recommendation to the Board that the audited financial statements be included in the Company's annual report on Form 10-K.
13. Review with the outside auditors their performance and recommend to the Board of Directors any proposed discharge of the outside auditors when circumstances warrant.
14. Review and reassess this Charter at least annually. Make recommendations to the Board, as conditions dictate, to update this Charter.

Meetings

The Committee shall meet regularly and as circumstances dictate, all as determined by the Committee. Regular meetings of the Committee will be held at least quarterly and at such place as shall from time to time be determined by the Chairman of the Committee or by the chief executive officer, president or secretary of the Company. Special meetings of the Committee may be called by or at the request of any member of the Committee, any of the Company's executive officers or the Company's principal accounting officer, in each case on at least twenty-four hours notice to each member of the Committee. In addition, the Committee or at least its Chairman should meet with the outside auditors and management quarterly to review the Company's financial statements filed with the SEC.

If the Board of Directors, management of the Company or the Company's outside auditors desire to discuss matters in private, the Committee shall meet separately with such person or group.

A majority of the Committee members shall constitute a quorum for the transaction of the Committee's business. Unless otherwise required by applicable law, the Company's Certificate of Incorporation or Bylaws of the Board of Directors, the Committee shall act upon the vote or consent of a majority of its members at a duly called meeting at which a quorum is present. Any action of the Committee may be taken by a written instrument signed by all of the members of the Committee. Members of the Committee may participate in Committee proceedings by means of conference telephone or similar communications equipment by means of which all persons participating in the proceedings can hear each other, and such participation shall constitute presence in person at such proceedings.

Complaints and Protection of Whistle Blowers

Any member of the Committee, on behalf of the Committee, shall be available during regular business hours to receive complaints regarding accounting, controls or auditing matters on a confidential submission of concerns by employees.

Any member of the Committee on behalf of the Committee is similarly available to receive information from any employee without fear of discrimination against any such employee regarding conduct the employee reasonably believes constitutes financial fraud or a violation of securities law.

Related party Transactions

Management shall inform the Committee of all related party transactions.

Miscellaneous

The Committee may perform any other activities consistent with this Charter, the Company's Certificate of Incorporation and Bylaws, and governing law, as the Committee or the Board of Directors deems necessary or appropriate.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally acceptable accounting principles. This is the responsibility of management and the outside auditors.

The Company will provide appropriate funding for the Committee.

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