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AVALONBAY COMMUNITIES INC  
Form DEF 14A  
April 02, 2001

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant /X/  
Filed by a Party other than the Registrant / /

Check the appropriate box:

- / / Preliminary Proxy Statement
- / / Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e) (2))
- /X/ Definitive Proxy Statement
- / / Definitive Additional Materials
- / / Soliciting Material Pursuant to Section 240.14a-12

AVALONBAY COMMUNITIES, INC.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- /X/ No fee required.
- / / Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:  
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  - (2) Form, Schedule or Registration Statement No.:  
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  - (3) Filing Party:  
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  - (4) Date Filed:  
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[LOGO]

2900 EISENHOWER AVENUE, SUITE 300  
ALEXANDRIA, VIRGINIA 22314  
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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 8, 2001  
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NOTICE IS HEREBY GIVEN that the 2001 Annual Meeting of Stockholders (the "Annual Meeting") of AvalonBay Communities, Inc. (the "Company") will be held on Tuesday, May 8, 2001 at 10:30 a.m. local time at The Mandarin Oriental Hotel, 222 Sansome Street, San Francisco, California 94104, for the following purposes:

1. To elect the following nine (9) directors to serve until the 2002 Annual Meeting of Stockholders and until their respective successors are elected and qualify: Gilbert M. Meyer, Richard L. Michaux, Bryce Blair, Bruce A. Choate, John J. Healy, Jr., Lance R. Primis, Allan D. Schuster, Charles D. Peebler, Jr. and Amy P. Williams.
2. To amend the 1994 Stock Incentive Plan, as amended and restated.
3. To consider and act upon a stockholder proposal if properly presented to the Annual Meeting.
4. To transact such other business that may be properly brought before the Annual Meeting and at any adjournments thereof.

Any action may be taken on the foregoing matters at the Annual Meeting on the date specified above, or on any date or dates to which, by original or later adjournment, the Annual Meeting may be adjourned.

The Board of Directors has fixed the close of business on March 19, 2001 as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting and at any adjournments thereof. Only stockholders of record of the Company's common stock, par value \$0.01 per share (the "Common Stock"), at the close of business on that date will be entitled to notice of and to vote at the Annual Meeting and at any adjournments thereof.

You are requested to fill in and sign the enclosed proxy card, which is being solicited by the Board of Directors, and to mail it promptly in the enclosed postage-prepaid envelope. You may also authorize a proxy to vote your shares by telephone or over the Internet by following the instructions on your proxy card. Any proxy delivered by a holder of Common Stock may be revoked by a writing delivered to the Company stating that the proxy is revoked or by delivery of a later dated proxy. Stockholders of record of Common Stock who attend the Annual Meeting may vote in person, even if they have previously delivered a signed proxy or authorized a proxy by telephone or over the Internet, but the presence (without further action) of a stockholder at the Annual Meeting will not constitute revocation of a previously delivered proxy.

By Order of the Board of Directors

Edward M. Schulman  
SECRETARY

Alexandria, Virginia  
April 2, 2001

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2900 EISENHOWER AVENUE, SUITE 300  
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PROXY STATEMENT  
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FOR 2001 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 8, 2001

April 2, 2001

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of AvalonBay Communities, Inc. (the "Company") for use at the 2001 Annual Meeting of Stockholders of the Company to be held on Tuesday, May 8, 2001 at 10:30 a.m. local time and at any adjournments thereof (the "Annual Meeting"). At the Annual Meeting, stockholders will be asked to: (1) vote upon the election of nine (9) directors of the Company, (2) amend the 1994 Stock Incentive Plan, as amended and restated (the "Stock Incentive Plan"), (3) vote upon a stockholder proposal regarding the shareholder rights issued pursuant to the Company's Shareholder Rights Plan, if properly presented at the Annual Meeting, and (4) act upon any other matters properly brought before the Annual Meeting.

This Proxy Statement and the accompanying Notice of Annual Meeting and Proxy Card are first being sent to stockholders on or about April 2, 2001. The Board of Directors has fixed the close of business on March 19, 2001 as the record date for the determination of stockholders entitled to receive notice of and to vote at the Annual Meeting (the "Record Date"). Only stockholders of record of the Company's common stock, par value \$.01 per share (the "Common Stock"), at the close of business on the Record Date will be entitled to receive notice of and to vote at the Annual Meeting. As of the Record Date, there were 67,579,040 shares of Common Stock outstanding and entitled to vote at the Annual Meeting. Holders of Common Stock outstanding as of the close of business on the Record Date will be entitled to one vote for each share of Common Stock held.

The presence, in person or by proxy, of holders of a majority of all of the shares of Common Stock entitled to be cast is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and "broker non-votes" will be counted for purposes of determining whether a quorum is present for the transaction of business at the Annual Meeting. A "broker non-vote" refers to a share represented at the Annual Meeting which is held by a broker or other nominee who has not received instructions from the beneficial owner or person entitled to vote such share and with respect to which, on one or more but not all proposals, such broker or nominee does not have discretionary voting power to vote such share.

Whether you hold shares directly as the stockholder of record or indirectly, as the beneficial owner of shares held for you by a broker or other nominee (i.e., "in street name"), you may direct your vote without attending the meeting. You may vote by granting a proxy or, for shares you hold in street name, by submitting voting instructions to your broker or nominee. In most instances, you will be able to do this either over the Internet, by telephone or by mail. Please refer to the summary instructions below and those included on your proxy card or, for shares you hold in street name, the voting instruction card included by your broker or nominee.

BY INTERNET -- If you have Internet access, you may submit your proxy from any location in the world by following the "By Internet" instructions on the

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proxy card, or, if applicable, the Internet voting instructions that may be described on the voting instruction card sent to you by your broker or nominee.

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BY TELEPHONE -- If you live in the United States or Canada, you may submit your proxy by following the "By Telephone" instructions on the proxy card, or, if applicable, the telephone voting instructions that may be described on the voting instruction card sent to you by your broker or nominee.

BY MAIL -- You may submit your proxy by signing your proxy card and mailing it in the enclosed, postage-prepaid and addressed envelope. For shares you hold in street name, you may sign the voting instruction card included by your broker or nominee and mail it in the envelope provided.

You may change your proxy instructions at any time prior to the vote at the Annual Meeting. For shares held directly in your name, you may do this by granting a new proxy, by filing a written revocation with the Secretary of the Company at the address of the Company set forth above, or by attending the Annual Meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked, unless specifically directed. You may change your proxy instructions for shares you beneficially own by submitting new voting instructions to your broker or nominee.

If a properly signed proxy is submitted but not marked as to a particular item, the proxy will be voted FOR the election of the nine (9) nominees for directors of the Company named in this Proxy Statement, FOR the amendment to the Stock Incentive Plan, and, if properly presented at the Annual Meeting, AGAINST the stockholder proposal regarding the shareholder rights issued pursuant to the Company's Shareholder Rights Plan. It is not anticipated that any matters other than those set forth in the Proxy Statement will be presented at the Annual Meeting. If other matters are presented, proxies will be voted in accordance with the discretion of the proxy holders.

The Company's 2000 Annual Report, together with the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC"), which includes financial statements for the fiscal year ended December 31, 2000, are being mailed to stockholders concurrently with this Proxy Statement. Neither the 2000 Annual Report nor the Annual Report on Form 10-K, however, is part of the proxy solicitation material.

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### PROPOSAL 1 ELECTION OF DIRECTORS

The Board of Directors currently consists of seats for nine (9) directors. At present, eight (8) directors sit on the Board and there is one (1) vacancy. Two (2) current members of the Board of Directors, Michael A. Futterman and Brenda J. Mixson, are not standing for re-election. The Board has nominated for election the remaining six (6) current directors and three (3) additional individuals. Accordingly, nine (9) nominees will stand for election at the Annual Meeting and if elected will serve until the 2002 annual meeting of stockholders and until their successors are elected and qualify. The following persons have been nominated by the Board of Directors to serve as directors: Gilbert M. Meyer, Richard L. Michaux, Bryce Blair, Bruce A. Choate, John J. Healy, Jr., Lance R. Primis, Allan D. Schuster, Charles D. Peebler, Jr. and Amy P. Williams (the "Nominees"). The Board of Directors anticipates that each of the Nominees, if elected, will serve as a director. However, if any person nominated by the Board of Directors is unable to accept election, the proxies will be voted for the election of such other person as the Board of Directors may recommend. The Board of Directors considers nominees for election to the

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Board of Directors recommended by a stockholder of record if the stockholder submits the nomination in compliance with the requirements of the Company's Bylaws. The Company did not receive any nominations for election to the Board of Directors at the Annual Meeting from a stockholder of the Company pursuant to the requirements of the Company's Bylaws. See "Other Matters--Stockholder Proposals for Annual Meetings" for a summary of these requirements.

### REQUIRED VOTE AND RECOMMENDATION

Only stockholders of record of Common Stock as of the Record Date are entitled to vote on this proposal. Proxies will be voted for Proposal 1 unless contrary instructions are set forth on the enclosed Proxy Card. A plurality of the votes cast at the meeting for the election of a Nominee for director, where a quorum is present, is sufficient to elect such Nominee. Accordingly, abstentions and broker non-votes will have no effect on this proposal, but will be included in the number of shares present at the Annual Meeting for purposes of establishing a quorum.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR ALL OF THE  
NOMINEES.

### INFORMATION REGARDING NOMINEES, DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the Nominees for election as directors at the Annual Meeting based on information furnished to the Company by each Nominee.

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Unless otherwise specified, the following information is as of February 1, 2001 and is based upon 67,366,948 shares of Common Stock outstanding at the close of business on such date.

NAME OF NOMINEE	AGE	DIRECTOR SINCE	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP OF COMMON STOCK (1)
-----	-----	-----	-----
Gilbert M. Meyer.....	56	1978	1,442,965 (2)
Richard L. Michaux.....	57	1998	706,989 (3)
Bryce Blair.....	42	--	334,841 (4)
Bruce A. Choate.....	53	1994	42,500 (5)
John J. Healy, Jr.....	54	1996	41,000 (6)
Lance R. Primis.....	54	1998	24,000 (7)
Allan D. Schuster.....	59	1998	58,435 (8)
Charles D. Peebler, Jr.....	64	--	--
Amy P. Williams.....	44	--	--

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\* Less than one percent.

- (1) Except as otherwise noted, each individual in this table has sole voting and investment power over the shares listed.
- (2) Includes (i) 521,400 shares issuable upon the exercise of stock options that vest on or before April 1, 2001 and (ii) 921,565 shares owned jointly with spouse. Does not include 26,008 shares issuable in the future under deferred

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stock awards granted to Mr. Meyer, pursuant to elections made under the Stock Incentive Plan.

- (3) Includes (i) 253,209 shares issuable upon the exercise of stock options that vest on or before April 1, 2001, (ii) 2,173 shares owned by Mr. Michaux's spouse, and (iii) 52,244 shares owned by The Michaux Family LLC.
- (4) Includes 256,816 shares issuable upon the exercise of stock options that vest on or before April 1, 2001.
- (5) Includes 41,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2001. Does not include 7,774 shares issuable in the future under a deferred stock award granted to Mr. Choate pursuant to elections under the Stock Incentive Plan.
- (6) Includes 35,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2001. Does not include 4,274 shares issuable in the future under a deferred stock award granted to Mr. Healy pursuant to an election under the Stock Incentive Plan.
- (7) Includes 20,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2001. Does not include 2,333 shares issuable in the future under a deferred stock award granted to Mr. Primis pursuant to an election under the Stock Incentive Plan.
- (8) Includes 49,195 shares issuable upon the exercise of stock options that vest on or before April 1, 2001.

The following biographical descriptions set forth information with respect to the Nominees, the directors of the Company who are not standing for re-election, and the executive officers of the Company who are not directors and are not standing for election, based on information furnished to the Company by each Nominee, director, and executive officer. There is no family relationship between any director, Nominee, or executive officer of the Company. Officers of the Company are elected annually at the first meeting of the Board of Directors following each annual meeting of stockholders. Each officer holds office until the first meeting of the Board of Directors following the next annual

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meeting of stockholders and until his or her successor is duly elected and qualifies or until his or her death, resignation or removal in the manner provided in the Company's Bylaws.

### NOMINEES FOR ELECTION AS DIRECTORS

RICHARD L. MICHAUX has been a director since June 1998 and Executive Chairman since February 2001. Prior to assuming that office, Mr. Michaux served as Chief Executive Officer of the Company since the merger of the Company and Avalon Properties, Inc. ("Avalon Properties") in June 1998 (the "Merger"), as Chairman since May 2000 and as President from February 1999 to September 2000. He had previously been a director and Chairman and Chief Executive Officer of Avalon Properties from its formation in August 1993 through the consummation of the Merger in June 1998. Prior to the formation of Avalon Properties, Mr. Michaux was a partner of Trammell Crow Residential ("TCR"), which he joined in 1980, and served as one of the three Group Managing Partners of TCR from 1986 to 1993. In that capacity, he was responsible for residential development in the Mid-Atlantic, Northeastern and Midwestern states. Mr. Michaux graduated from the United States Naval Academy with distinction and holds an M.B.A. degree from the University of North Carolina at Chapel Hill, where he was a Morehead Fellow and a Dean's Scholar. Mr. Michaux's professional affiliations include: past Chairman of the National Multi Housing Council; Vice Chairman of the Gold Flight Council

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of Urban Land Institute (the "ULI"); member of the Executive Committee of the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"); Vice President/Treasurer of the United States Naval Academy Class of 1966 Foundation; and founding Board member of the D.C. Early Child Care Collaborative. Mr. Michaux is a director of Broadband Residential, Inc., a private company formed to specialize in providing broadband communication services to residents of multifamily communities; the Company has a minority equity stake in Broadband Residential.

BRYCE BLAIR is the Company's President and Chief Executive Officer. Mr. Blair has served as Chief Executive Officer since February 2001 and President since September 2000. Mr. Blair also served as the Chief Operating Officer of the Company from February 1999 to February 2001. Prior to February 1999, Mr. Blair had served as Senior Vice President--Development, Acquisitions and Construction since the Merger, the same position he held with Avalon Properties from its formation in August 1993 through June 1998. Mr. Blair worked for the Northeast Group of TCR from 1985 until 1993 and was the partner responsible for overseeing development and acquisition of multifamily opportunities throughout Massachusetts, Rhode Island and Long Island, New York. Prior to joining the Northeast Group of TCR in 1985, he was a Project Manager with the Exxon Corporation responsible for managing the design, development and construction of capital improvement properties. Mr. Blair received his Masters degree in Business Administration from Harvard Business School in 1985. He graduated magna cum laude with an undergraduate degree in Civil Engineering from the University of New Hampshire. He is a member of the ULI, the Real Estate Finance Association of Greater Boston Real Estate Board, and the Real Estate Investment Advisory Council.

BRUCE A. CHOATE has been a director of the Company since April 1994. Since 1991, Mr. Choate has served as Chief Financial Officer of Watson Land Company, a privately-held real estate investment trust ("REIT") in Carson, California. Prior to joining Watson Land Company, Mr. Choate was employed by Bixby Ranch Company, a privately-held real estate investment company in Seal Beach, California, as Senior Vice President and Chief Financial Officer. Previously, Mr. Choate held management positions with national banking and mortgage banking organizations. Mr. Choate graduated from the University of California, Los Angeles and attended the Graduate School of Business at the University of Southern California. He is a licensed real estate broker and holds membership in the ULI, NAREIT, and the Real Estate Investment Advisory Council.

JOHN J. HEALY, JR. has been a director of the Company since 1996. Mr. Healy is Co-Founder and CEO of Hyde Street Holdings, Inc., a company formed in 1996 to pursue the creation of value in real

estate and real estate related entities. Hyde Street seeks opportunities to invest in and/or receive an ownership position through the strategic development and implementation of business goals. Investments have included start-up companies in the telecommunications, mortgage processing and securitization and managed LAN application businesses. Mr. Healy sits on the board of Libritas, which delivers managed LAN applications to businesses in the United States and worldwide. Previously, Mr. Healy co-founded the Hanford/Healy Companies (1988), a real estate investment, asset management and consulting company, which was purchased by GMAC Commercial Mortgage, a subsidiary of General Motors, in September 1996. Mr. Healy has also held various management positions with real estate and financial firms including: The Federal Asset Disposition Association (predecessor to the Resolution Trust Corporation), Bank of America (COO and Director of Technical Services for a real estate subsidiary) and Manufacturers Hanover Trust Company (VP). Mr. Healy sits on the board of The Rosalind Russell Research Center for Arthritis (UCSF) and Napa Valley Community Housing (a non-profit for affordable housing for low-income residents of Napa County.)

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Memberships in professional associations include: Urban Land Institute (Multi-Family Council), American Society of Real Estate Counselors (CRE), and American Institute of Real Estate Appraisers (MAI). Mr. Healy has undergraduate (BBA) and graduate (MBA) degrees in Finance from Hofstra University.

GILBERT M. MEYER is the Company's Founder and has been continuously involved with the Company as an executive officer, director and/or stockholder since 1978. Mr. Meyer served as Executive Chairman of the Company from the date of the Merger until his retirement from that position following the 2000 annual meeting of stockholders in May 2000, but he continues to serve on the Board of Directors. Mr. Meyer entered into a three-year consulting agreement with the Company that began following the 2000 annual meeting of stockholders (see "Certain Relationships and Related Transactions"). Prior to the completion of the Merger, Mr. Meyer served as the Company's Chairman, President and Chief Executive Officer. Mr. Meyer is also the founder and remains a major stockholder and President of Greenbriar Homes Communities, Inc., a private for-sale single family home building company in the San Francisco Bay Area. Prior to founding the Company, Mr. Meyer was Chief Financial Officer for BAS Homes and prior to that was a Vice President responsible for real estate workouts for Boise Cascade Credit Corporation. Mr. Meyer is a licensed certified public accountant and general contractor, and holds a B.A. degree from St. Mary's College of California and an M.B.A. degree from the University of California at Berkeley. In addition, he has served as a member of the Board of Governors of NAREIT; as a member of the Haas School of Business Advisory Board, University of California at Berkeley; as a member of the Policy Advisory Board of the Fisher Center for Real Estate and Urban Economics, University of California at Berkeley; as the Regional President of the Home Builders in the San Francisco Bay Area, an affiliate of the National Association of Home Builders; and as a member of the boards of a number of artistic, religious and philanthropic non-profit organizations.

LANCE R. PRIMIS has been a director of the Company since June 1998. Since 1997, Mr. Primis has been the managing partner of Lance R. Primis & Partners, LLC, a management consulting firm with clients in the media industry. From 1969 to 1996, Mr. Primis was employed in various positions by The New York Times Company, including the positions of President and Chief Operating Officer which he held from 1992 to 1996. In addition, Mr. Primis was the President and General Manager of The New York Times from 1988 to 1992. From April 1998 to September 2000, Mr. Primis served as co-founder and Chairman of PressPoint, Inc., a start-up enterprise that engaged in the digital transmission of newspapers through a digital satellite network. In September 2000, PressPoint, Inc. ceased operations and subsequently filed for bankruptcy under Chapter 7 of the federal bankruptcy laws. In addition, Mr. Primis is a member of the Board of Directors of Torstar Corporation, Plum Holdings, LLC and the Partnership for a Drug Free America. Mr. Primis received a B.A. degree from the University of Wisconsin, and has completed the Marketing Management Program at Harvard Business School and the Stanford Executive Program at Stanford University.

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ALLAN D. SCHUSTER has been a director of the Company since June 1998 and was a director of Avalon Properties from December 1993 through June 1998. Mr. Schuster has been a private investor since June 1993. From April 1988 until June 1993, he was Chairman and Chief Executive Officer of the Travelers Realty Investment Company, where he directed that company's investment activities in commercial and agricultural real estate. During Mr. Schuster's tenure, Travelers' portfolio of mortgages, equities and joint ventures ranged between \$12 billion and \$20 billion. During this same period, Mr. Schuster was Chairman and Chief Executive Officer of Prospect Company, a \$2 billion real estate development company. From December 1972 to September 1987, Mr. Schuster was with Citibank, N.A., where during the last five years of that term he was Managing Director of Citicorp Real Estate, Inc. Mr. Schuster is a member of the Appraisal



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Institute and the ULI.

CHARLES D. PEEBLER, JR. is Managing Director of Plum Capital L.L.C., a venture capital firm concentrating on media content investments. Prior to joining Plum Capital in April 1999, Mr. Peebler was, from December 1997 to April 1999, President of True North Communications, Inc., a worldwide media agency with billings of approximately \$14 billion and 12,000 employees in 300 offices. Prior to that position, Mr. Peebler had served for many years as President of Bozell, Jacobs, Kenyon & Eckhardt, a worldwide media agency which was acquired by True North in 1997. Mr. Peebler currently serves on the Boards of American Tool Companies, Inc., Valmont Industries, Hotlink Inc., Dreamlife, Inc., and mPulse. Mr. Peebler also serves on the Boards of several advertising and media associations and is the President of the Chief Executives Organization.

AMY P. WILLIAMS is Vice President, Finance & Planning, of Allstate Insurance Company, the largest publicly traded personal lines insurer in the United States. Prior to assuming that position, Ms. Williams was Vice President, Corporate Strategy for Allstate. Prior to joining Allstate in 1999, Ms. Williams had been a Partner since 1996 at Mitchell Madison Group, a global management consulting firm, where she headed the Chicago office and led the merger integration practice. From 1992 to 1996, Ms Williams was a member of the senior management team of USF&G, Inc., a multi-line insurer based in Baltimore, Maryland, and her positions there included Senior Vice President, Strategy, and Senior Vice President, Human Resources. Prior to joining USF&G, Ms. Williams was a Senior Engagement Manager in McKinsey & Company's Chicago office. Ms. Williams is a 1980 graduate of The University of Chicago Graduate School of Business. She graduated in 1979 from The University of Chicago with a Bachelor of Arts degree in economics.

### DIRECTORS WHO ARE NOT STANDING FOR RE-ELECTION

MICHAEL A. FUTTERMAN, 58, has been a director of the Company since June 1998 and was a director of Avalon Properties from December 1993 through the consummation of the Merger. Since 1983, Mr. Futterman has been Chairman of American Realty Capital Inc., a closely held real estate company which has arranged over \$1.5 billion of investments in property for its partners and stockholders. From 1988 to 1992, Mr. Futterman also held the position of President of Elders American Realty Capital, Inc., a participating mortgage lender subsidiary of Elders IXL, an Australian public company. Prior to joining American Realty Capital Inc., Mr. Futterman was employed by Eastdil Realty, Inc. from 1969 to 1983, where he was most recently Executive Vice President and a director. Mr. Futterman also served as a director of Dollar Dry Dock Savings Bank from July 1989 to March 1990 and as Trustee of the International Center of Photography from 1986 to 1992. Mr. Futterman graduated from the Carnegie Institute of Technology and the Georgetown University Law School.

BRENDA J. MIXSON, 48, has been a director of the Company since April 1994. From August, 2000 to January, 2001, she was Executive Vice President of Capital Thinking, Inc., which is engaged in providing software solutions to the commercial real estate industry, and since January 1, 2000 has been managing a private real estate portfolio. From March 1999 to August 2000, Ms. Mixson served as Chief Financial Officer of First Union Real Estate Equity and Mortgage Investments. From December 1997 through March 1999, Ms. Mixson worked at Prime Capital Holding, LLC, where she most recently

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served as Chief Financial and Investment Officer and Managing Director. From February 1996 to December 1997, Ms. Mixson was a Managing Director of the Emerging Markets, Fixed Income Department for ING Barings (U.S.) Securities, Inc., a member of the ING Group. Ms. Mixson previously served as Vice President--Real Estate Finance of ING Capital Corporation from March 1995 to

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February 1996. She served as an Executive Vice President and Chief Operating Officer of Reichmann International from April 1994 to March 1995. Ms. Mixson graduated Phi Beta Kappa from the University of Minnesota with a B.S. degree in Economics.

### EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

SAMUEL B. FULLER, 39, has been Executive Vice President--Development/Construction since February 2001. Prior to assuming that office, Mr. Fuller served as Senior Vice President--Development/Construction since January 2000. Prior to those positions, he had served since the Merger as the Company's Regional Vice President--Development/Acquisitions, with responsibility in the Northeast and Pacific Northwest regions of the country. From August 1993 through March 1998, Mr. Fuller served as Avalon Properties' Vice President of Development for Connecticut and New York. Mr. Fuller worked for the Northeast Group of TCR from 1989 until 1993 and was the partner responsible for overseeing development and acquisition of multifamily opportunities throughout Connecticut and New York state excluding Long Island. Before joining TCR, Mr. Fuller was a Project Manager at Texas Instruments, Inc. Mr. Fuller is a 1989 graduate of Harvard Business School and has a Bachelor of Science Degree in Mechanical Engineering from the University of New Hampshire College of Engineering and Physical Sciences.

LEO S. HOREY, 38, has been Senior Vice President--Property Operations since February 2001. Prior to assuming that office, Mr. Horey had served since the Merger as Regional Vice President--Property Operations, primarily during that time with oversight of the Company's West Coast operations. Prior to the Merger, Mr. Horey had served since 1994 as Vice President--Property Operations for Avalon Properties with responsibility for numerous properties in Virginia, Maryland and the District of Columbia. Mr. Horey began his career with TCR in 1990, concentrating in acquisitions and dispositions. Mr. Horey received his Masters of Business Administration from the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill where he was a Richard H. Jenrette Fellow. He also holds a Bachelor of Science degree in Computer Science and Economics from Duke University.

JAMES R. LIBERTY, 61, has been Senior Vice President--Construction Operations since June 1999. Prior to assuming that office, Mr. Liberty had served since the Merger as Vice President--Construction, with responsibilities in the East Coast and Midwest. Prior to the Merger, he held the same position with Avalon Properties. Mr. Liberty joined Avalon Properties in September 1996 as Senior Construction Manager for the Mid-Atlantic region, a position he held until April 1997. His previous experience included officerships in, and positions with, several prominent real estate development companies since the 1960's, where his management responsibilities have included high-volume multifamily housing and mid- and high-rise office building complexes in New York, New Jersey, Washington, D.C., Chicago and Detroit. He is a graduate of Rochester Institute of Technology and a licensed real estate broker.

TIMOTHY J. NAUGHTON, 39, has been Chief Operating Officer since February 2001. Prior to assuming that office, Mr. Naughton served as Senior Vice President--Chief Investment Officer since January 2000, and prior to that had, since the Merger, served as the Company's Regional Vice President--Development/Acquisitions, with responsibility primarily in the Mid-Atlantic and Midwest regions of the country. From the formation of Avalon Properties in August 1993 until the Merger, Mr. Naughton had served Avalon Properties as Vice President of Development, with responsibility for the Virginia and Maryland markets. He was previously a Development Partner with the Mid-Atlantic Group of TCR, from 1989 until 1993. Mr. Naughton received his Master's Degree in Business Administration from

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Harvard Business School in 1987 and an undergraduate degree with high distinction in economics from the University of Virginia.

CHARLENE ROTHKOPF, 49, joined the Company in March 2000 as Senior Vice President--Human Resources. Immediately prior to joining the Company, Ms. Rothkopf was founder and President of Human Capital Group, a management consulting firm specializing in strategic planning and human resource development. From 1996 to 1999, Ms. Rothkopf was Vice President of Operations Human Resources for Host Marriott Services Corporation, and from 1993 to 1996 she was Vice President of Human Resources Planning and Development for Host Marriott Corporation. From 1983 to 1993, Ms. Rothkopf was employed by Marriott Corporation, most recently as Director of Benefit Operations. Ms. Rothkopf holds an undergraduate degree and a masters degree in administration and supervision from the University of Maryland, and she performed doctoral work at George Washington University in Human Resources Development and Management Science.

THOMAS J. SARGEANT, 42, has been Chief Financial Officer and Treasurer since the Merger. In addition, since January 2000, Mr. Sargeant has held the additional title of Executive Vice President and, prior to that, held the additional title of Senior Vice President. Mr. Sargeant is responsible for all of the financial operations of the Company, including capital markets/finance, financial reporting and financial services. Mr. Sargeant is also the chief officer in charge of information technologies. From March 1995 through June 1998, Mr. Sargeant served as the Chief Financial Officer and Secretary of Avalon Properties, and he was Treasurer of Avalon Properties from its formation in August 1993 through June 1998. Prior to the formation of Avalon Properties, he served as Group Financial Officer for the Northeast Group of TCR, the Mid-Atlantic Group of TCR and the Midwest Group of TCR and oversaw the financial services operations (including accounting and financial reporting, cash management, payroll, information systems and internal audit) as well as project finance for the Midwest Group of TCR. Mr. Sargeant joined TCR in 1986 as Controller and was promoted to Chief Financial Officer in 1989 and to Group Financial Officer in 1992. Prior to joining TCR, Mr. Sargeant was with Arthur Andersen & Co., where he specialized in the construction and real estate industries, serving both private and publicly held clients. Mr. Sargeant, a certified public accountant, is a magna cum laude graduate of the University of South Carolina where he was elected to Phi Beta Kappa and the Honors College. Mr. Sargeant is a director of Realeum, Inc., a private company engaged in the development of an on-site property management system and leasing automation system; the Company has a minority equity stake in Realeum, Inc.

ROBERT H. SLATER, 47, has been Executive Vice President--Property Operations since February 1999, and in that capacity is responsible for direct oversight of all of the Company's property operations, ancillary services and marketing. Prior to assuming his current position, Mr. Slater had, since the Merger, served as Senior Vice President--Property Operations, the same position he held with Avalon Properties from its formation in August 1993 through June 1998. Prior to the formation of Avalon Properties, he served as Chief Operating Officer of TCR for the Mid-Atlantic region. His responsibilities included all aspects of property management including property operations, marketing, training, human resources, risk management, resident services, engineering services and business development. Mr. Slater was responsible for opening and managing the Raleigh, North Carolina TCR office and was responsible for the development of several multifamily apartment communities. Prior to joining TCR in 1988, Mr. Slater served as a law clerk to (now retired) Justice James G. Exum, Jr. of the Supreme Court of North Carolina and, thereafter, engaged in the private practice of law. Mr. Slater is a 1980 graduate of the University of Virginia School of Law with an undergraduate degree, cum laude, from Vanderbilt University. The Company and Mr. Slater have announced that Mr. Slater's role as an officer of the Company will end on April 30, 2001.

BOARD OF DIRECTORS AND ITS COMMITTEES

BOARD OF DIRECTORS. The Board of Directors currently consists of seats for nine directors. Eight directors currently serve on the Board and there is one vacancy. If all nine Nominees are elected, there will no longer be a vacancy on the Board. The Board of Directors met six times during 2000. Each of the directors attended at least 75% of the total number of meetings of the Board of Directors and meetings of the committees of the Board of Directors of which he or she was a member.

AUDIT COMMITTEE. The Board of Directors has established an Audit Committee which consisted of Messrs. Choate (Chair), Primis, Schuster and Mr. Richard W. Miller from January 2000 until May 2000 and which thereafter has consisted of Messrs. Choate (Chair), Futterman, Primis and Schuster. The Board of Directors has determined that the members of the Audit Committee are "independent" under the rules of the NYSE. The Audit Committee, among other things, makes recommendations concerning the engagement of independent auditors, reviews the overall audit plans and results of the audit engagement with the independent auditor, reviews and discusses with management and the independent auditor quarterly and annual audited financial statements and major changes in accounting and auditing principles, reviews the independence of the independent auditor and each member of the Audit Committee, reviews the fees paid to the independent auditor, reviews with the independent auditor the adequacy of the Company's internal accounting controls and performs such other oversight functions as may be requested from time to time by the Board of Directors. The Audit Committee convened two formal meetings during 2000 and, in addition, the Chair of the Committee met (frequently with one or more other Audit Committee members) to discuss with management and the independent auditor the Company's quarterly earnings prior to disclosure of those earnings to the public. In accordance with SEC regulations, attached to this proxy statement as EXHIBIT A is a copy of the charter of the Audit Committee.

COMPENSATION COMMITTEE. The Board of Directors has established a Compensation Committee which consisted of Messrs. Primis (Chair), Choate and Futterman and Ms. Mixson from January 2000 until May 2000 and which thereafter has consisted of Messrs. Primis (Chair), Choate and Healy and Ms. Mixson, all of whom are independent of the Company's management. The Compensation Committee exercises all powers of the Board of Directors in connection with compensation matters, including establishing and evaluating incentive compensation and benefit plans, and the Compensation Committee reviews employment agreements and arrangements and makes recommendations with respect thereto to the full Board. The Compensation Committee also has authority to grant awards under the Stock Incentive Plan to the employee directors, management and other employees of the Company and its subsidiaries. The Compensation Committee convened two formal meetings during 2000 and also met informally approximately five times.

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE. The Board of Directors has established a Nominating and Corporate Governance Committee (the "Nominating Committee") which consisted of Messrs. Healy, Michaux, Meyer and Mr. Richard W. Miller (Chair) from January 2000 until May 2000 and which thereafter has consisted of Messrs. Healy (Chair), Michaux (until February 2001), Primis and Meyer. The Nominating Committee was formed to consider, and make proposals to the full Board regarding, issues relating to Board composition and performance. The Nominating Committee also recommends agendas for Board meetings, recommends the establishment or dissolution of Board committees, assists the CEO in establishing objectives and addresses other issues regarding corporate governance. In exercising its function of recommending nominees for nomination by the Board to election as directors, the Nominating Committee considers nominees recommended by stockholders. The procedure by which stockholders may submit such recommendations is set forth in the Company's Bylaws. See "Other

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matters--Stockholder Proposals for Annual Meetings" for a summary of these requirements. The Nominating and Corporate Governance Committee convened six formal meetings during 2000. In February 2001, the Board adopted a charter for the Nominating Committee pursuant to

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which only directors who are not officers or employees of the Company can be members of the Committee.

INVESTMENT AND FINANCE COMMITTEE. The Board of Directors has established an Investment and Finance Committee which, since January 2000, has consisted of Messrs. Schuster (Chair), Futterman, Healy, Meyer and Michaux and Ms. Mixson. The Investment and Finance Committee was formed to provide oversight and support with respect to (i) financings and maintenance of the capital structure of the Company and (ii) investment activities. The Investment and Finance Committee has authority, subject to certain limits and guidelines set by the Board of Directors and Maryland law, to approve financing and investment activity. The Investment and Finance Committee met 11 times during 2000.

TECHNOLOGY COMMITTEE. In May 2000, the Board of Directors established a Technology Committee which since then has consisted of Messrs. Michaux (Chair), Healy and Primis. The Technology Committee was formed to provide oversight with respect to, and authorize expenditures for, the Company's technology commitments, initiatives and investments. The Technology Committee met two times during 2000.

### DIRECTOR COMPENSATION

Directors of the Company who are also employees receive no additional compensation for their services as directors. Under the Stock Incentive Plan, on the fifth business day following each annual meeting of stockholders beginning with the 2001 Annual Meeting of Stockholders, each of the Company's non-employee directors will automatically receive options to purchase 7,000 shares of Common Stock at the last reported sale price of the Common Stock on the NYSE on such date, and a restricted stock (or deferred stock award) grant of 2,500 shares of Common Stock. Subject to accelerated vesting under certain limited circumstances, all of such stock options will become exercisable one year after the date of grant and will expire ten years after the date of grant, and such shares of restricted stock (or deferred stock awards) granted to non-employee directors will vest at the rate of 20% on the date of issuance and on each of the first four anniversaries of the date of issuance. If a director elects to receive a deferred stock award in lieu of restricted stock, then at the time of such election, the director also elects at what time in the future he or she will receive shares of stock in respect of the vested portion of the deferred stock award. Prior to an amendment to the Stock Incentive Plan adopted by the Board of Directors subsequent to the 2000 Annual Meeting of Stockholders, non-employee directors received annual grants of 10,000 options and 2,000 restricted shares. The Board adjusted these numbers to 7,000 options and 2,500 restricted shares, as described above, so that the ratio of options to shares awarded annually to directors would be more consistent with the ratio of options to shares awarded annually to officers.

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### EXECUTIVE COMPENSATION

The following table sets forth, for each of the Company's last three fiscal years, the annual compensation awarded to the Company's chief executive officer and the four other executive officers of the Company who, on the basis of annual salary and bonus, were the most highly compensated officers of the Company during 2000 (collectively, the "Named Executive Officers").

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SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS	
		SALARY	BONUS (1)	SECURITIES UNDER-LYING OPTIONS (#) (2)	RESTRICTED STOCK AWARDS (\$) (3)
Richard L. Michaux(7).....	2000	\$412,023	\$412,500	70,000	\$634,110
Executive Chairman	1999	377,500	243,200	59,400	238,275
	1998	231,542	252,000	62,000	198,400
Bryce Blair(7).....	2000	367,057	351,764	68,000	611,135
President and Chief	1999	327,500	248,186	49,500	192,037
Executive Officer	1998	180,212	241,941	46,500	150,720
Robert H. Slater(7).....	2000	331,770	320,158	53,000	505,450
Executive Vice President-	1999	313,750	214,828	46,200	189,337
Property Operations	1998	178,621	225,000	46,500	158,720
Thomas J. Sargeant(7).....	2000	300,000	286,800	46,000	594,050
Executive Vice President,	1999	270,000	228,472	39,600	141,412
Chief Financial Officer,	1998	160,758	205,309	37,200	125,760
Treasurer					
Samuel B. Fuller(7).....	2000	260,000	277,169	44,500	390,575
Executive Vice President-	1999	225,002	177,403	36,300	122,513
Development/ Construction	1998	130,001	249,640	34,100	109,120

(1) Cash bonuses may be paid under the Company's corporate bonus program in the discretion of the Compensation Committee to executive officers upon the attainment of performance-based criteria established by the Committee. For a general description of the program, see "Compensation Committee Report on Executive Compensation."

(2) The options to purchase Common Stock that are listed for 2000, 1999 and 1998 consist of options granted on February 13, 2001, February 28, 2000 and February 17, 1999, respectively. The Summary Compensation Table does not include options to purchase common stock of Avalon Properties that were converted into the right to purchase Common Stock of the Company in connection with the Merger. On March 8, 1998, Avalon Properties granted options to purchase common stock of Avalon Properties to Messrs. Blair, Slater, Sargeant and Fuller and, upon consummation of the Merger, these options converted into options to purchase 80,000, 80,000, 70,000 and 55,000 shares of Common Stock of the Company, respectively.

(3) During the period from March 1994 through December 31, 2000, 49,390 shares of restricted stock were granted by the Company to the Named Executive Officers, of which 34,870 shares had not yet vested. Based on the last reported sale price of the Company's Common Stock on the NYSE on December 29, 2000 of \$50.125 per share, the aggregate dollar value of these 34,870 shares of restricted stock was \$1,747,859. This does not include shares of restricted stock of Avalon Properties that were granted to

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officers of Avalon Properties prior to the Merger. With respect to all shares of restricted stock described in this table and in footnotes (8) through (22), except as otherwise noted, twenty percent of the shares vested on the date of issuance and the remaining

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80% of the shares vest in four equal installments on each of the first four anniversaries of the date of issuance. Dividends are payable on the shares.

- (4) For 2000, includes (i) amounts contributed by the Company to Named Executive Officers' 401(k) accounts in the following amounts: Mr. Michaux--\$5,100; Mr. Blair--\$5,100; Mr. Slater--\$5,100; Mr. Sargeant--\$5,100; and Mr. Fuller--\$5,100; and (ii) premiums paid by the Company for the Named Executive Officers' split dollar life insurance policies in the following amounts: Mr. Michaux--\$110,603; Mr. Blair--\$27,428; Mr. Slater--\$36,189; Mr. Sargeant--\$27,428; and Mr. Fuller--\$12,255.
- (5) For 1999, includes (i) amounts contributed by the Company to the Named Executive Officers' 401(k) accounts in the following amounts: Mr. Michaux--\$4,800; Mr. Blair--\$4,800; Mr. Slater--\$4,800; Mr. Sargeant--\$4,800; and Mr. Fuller--\$4,800; and (ii) premiums paid by the Company for the Named Executive Officers' split dollar life insurance policies in the following amounts: Mr. Michaux--\$115,468; Mr. Blair--\$27,464; Mr. Slater--\$36,273; Mr. Sargeant--\$27,464; and Mr. Fuller--\$12,269.
- (6) For 1998, includes (i) amounts contributed by the Company to the Named Executive Officers' 401(k) accounts in the following amounts: Mr. Michaux--\$4,800; Mr. Blair--\$4,800; Mr. Slater--\$4,800; Mr. Sargeant--\$4,800; and Mr. Fuller--\$4,800; and (ii) premiums paid by the Company for the Named Executive Officers' split dollar life insurance policies in the following amounts: Mr. Michaux--\$115,468; Mr. Blair--\$27,488; Mr. Slater--\$36,350; Mr. Sargeant--\$27,488; and Mr. Fuller--\$12,283.
- (7) The Named Executive Officers began employment on June 4, 1998, the date of the Merger. The salaries indicated for 1998 consist of salary payments from June 5, 1998 through December 31, 1998 based on the following annual base salaries: Mr. Michaux---\$350,000; Mr. Blair--\$300,000; Mr. Slater--\$300,000; Mr. Sargeant--\$270,000; and Mr. Fuller--\$214,617.
- (8) Consists of 13,800 shares of restricted stock awarded as of February 13, 2001, valued at \$45.95 per share.
- (9) Consists of 7,060 shares of restricted stock awarded as of February 28, 2000, valued at \$33.75 per share.
- (10) Consists of 6,200 shares of restricted stock awarded as of February 17, 1999, valued at \$32.00 per share.
- (11) Consists of 13,300 shares of restricted stock awarded as of February 13, 2001, valued at \$45.95 per share.
- (12) Consists of 5,690 shares of restricted stock awarded as of February 28, 2000, valued at \$33.75 per share.
- (13) Consists of 4,710 shares of restricted stock awarded as of February 17, 1999, valued at \$32.00 per share.
- (14) Consists of 11,000 shares of restricted stock awarded as of February 13,

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2001, valued at \$45.95 per share.

- (15) Consists of 5,610 shares of restricted stock awarded as of February 28, 2000, valued at \$33.75 per share.
- (16) Consists of 4,960 shares of restricted stock awarded as of February 17, 1999, valued at \$32.00 per share.
- (17) Consists of 9,925 shares of restricted stock awarded as of February 13, 2001, valued at \$45.95 per share. For 2000, includes for Mr. Sargeant \$137,996 on account of a grant to him of 418,171 restricted shares of Realeum, Inc. common stock subject to vesting. Contemporaneously with such grant, each of Messrs. Michaux, Blair, Slater and Fuller indirectly purchased an interest in shares of common stock of Realeum, Inc. for \$.33 per share, which was the fair market value of the shares as determined at the time by the Company and Realeum, Inc. See "Certain Relationships and Related Transactions--Indirect Grant and Sale of Interests in Realeum, Inc." Mr. Sargeant's

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grant of restricted Realeum common stock was made on June 21, 2000, and 1/3 of such shares vest on June 21, 2001, with the balance vesting in equal monthly installments through June 21, 2004.

- (18) Consists of 4,190 shares of restricted stock awarded as of February 28, 2000, valued at \$33.75 per share.
- (19) Consists of 3,930 shares of restricted stock awarded as of February 17, 1999, valued at \$32.00 per share.
- (20) Consists of 8,500 shares of restricted stock awarded as of February 13, 2001, valued at \$45.95 per share.
- (21) Consists of 3,630 shares of restricted stock awarded as of February 28, 2000, valued at \$33.75 per share.
- (22) Consists of 3,410 shares of restricted stock awarded as of February 17, 1999, valued at \$32.00 per share.

### OPTION GRANTS WITH RESPECT TO FISCAL YEAR 2000

The following table sets forth the options to purchase Common Stock granted with respect to the fiscal year ended December 31, 2000 to the Company's Named Executive Officers.

NAME	INDIVIDUAL GRANTS				VAL AN A FOR ----- 5% (\$
	NUMBER OF SHARES UNDERLYING OPTIONS GRANTED (#) (1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES FOR FISCAL YEAR 2000	EXERCISE PRICE (\$/SH)	EXPIRATION DATE	
Richard L. Michaux.....	70,000 (3)	8.2%	\$45.95	2/13/11	\$2,022
Bryce Blair.....	68,000 (3)	8.0%	45.95	2/13/11	1,965
Robert H. Slater.....	53,000 (3)	6.2%	45.95	2/13/11	1,531



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Thomas J. Sargeant.....	46,000 (3)	5.4%	45.95	2/13/11	1,329
Samuel Fuller.....	44,500 (3)	5.2%	45.95	2/13/11	1,285

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- (1) A total of 850,068 options to purchase Common Stock were granted to employees of the Company with respect to the fiscal year ended December 31, 2000. This chart excludes options granted on February 28, 2000 with respect to the fiscal year ended December 31, 1999 in the following amounts: Mr. Michaux--59,400; Mr. Blair--49,500; Mr. Slater--46,200; Mr. Sargeant--39,600; and Mr. Fuller--36,300.
  - (2) The options will only have value if they are exercised, and that value will depend entirely on the share price of Common Stock on the exercise date. Potential realizable values are based on assumed compound annual appreciation rates specified by the SEC. These increases in value are based on speculative assumptions for illustrative purposes only and are not intended to forecast possible future appreciation, if any, of the Company's stock price.
  - (3) These options were granted on February 13, 2001 and become exercisable in three equal installments on the first, second and third anniversaries of the date of grant. See "Proposal 2 -- Summary of the Stock Incentive Plan" for a summary of the terms of the Stock Incentive Plan.

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OPTION EXERCISES AND YEAR-END HOLDINGS

The following table sets forth the aggregate number of options to purchase Common Stock that were exercised in 2000 and the value of options held as of December 31, 2000 by the Company's Named Executive Officers.

AGGREGATED OPTION EXERCISES IN FISCAL YEAR 2000 AND  
FISCAL YEAR-END 2000 OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$) (1)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END EXERCISABLE/ UNEXERCISABLE (#)	VALU UNEXER IN-THE OPTIONS A YEAR EXERCI UNEXERCISA
Richard L. Michaux.....	115,245 (3)	\$1,433,959 (3)	212,742/100,733	\$ 2,674,21
Bryce Blair.....	5,137 (4)	70,018 (4)	198,148/107,167	3,011,97
Robert H. Slater.....	31,243 (5)	641,097 (5)	172,043/103,868	2,399,98
Thomas J. Sargeant.....	13,748 (6)	238,091 (6)	125,990/118,465	1,850,17
Samuel B. Fuller.....	0	0	106,424/77,367	1,764,06

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- (1) Unless otherwise described in the footnotes below, the exercise price for each option exercise set forth in this table is \$26.6823 per share.
  - (2) Based on the last reported sale price of the Company's Common Stock on the NYSE on December 29, 2000 of \$50.125 per share.

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- (3) Consists of (i) the exercise of 104,002 Non-Qualified Stock Options ("NQSOs") on May 1, 2000 and a sales price of \$39.125 per share, and (ii) the exercise of 11,243 Incentive Stock Options ("ISOs") on May 1, 2000. The fair market value of the underlying shares of Common Stock on May 1, 2000 was \$39.125 per share.
- (4) Consists of the exercise of 5,137 ISOs on May 8, 2000 in exchange for 3,400 shares of the Company's Common Stock. The fair market value of the underlying shares of Common Stock on May 8, 2000 was \$40.3125 per share.
- (5) Consists of (i) the exercise on August 1, 2000 of 6,000 NQSOs and a sales price of \$47.00 per share and 14,000 NQSOs and a sales price of \$47.25 per share, and (ii) the exercise of 11,243 ISOs on July 28, 2000. The fair market value of the underlying shares of Common Stock on July 28, 2000 was \$47.25 per share.
- (6) Consists of (i) the exercise of 5,000 NQSOs on July 31, 2000 and a sales price of \$46.8215 and 5,000 NQSOs on August 1, 2000 and a sales price of \$47.13, and (ii) the exercise of 3,748 ISOs on March 28, 2000. The fair market value of the underlying shares of Common Stock on March 28, 2000 was \$36.0625 per share.

### MERGER EMPLOYMENT AGREEMENTS AND SEVERANCE ARRANGEMENTS

The summaries of agreements below are qualified in their entirety by reference to the complete agreements, which have been filed as exhibits to the Company's periodic filings with the SEC.

MERGER EMPLOYMENT AGREEMENTS. On March 9, 1998, the Company entered into three-year employment agreements (collectively, as amended, the "Merger Employment Agreements") with Messrs. Michaux, Blair, Sargeant and Slater, all of which became effective upon completion of the Merger. In consideration of the new employment agreements and option grants made in connection with the Merger, all of these officers waived any change in control benefits (such as severance payments or acceleration of option or restricted stock vesting) that could have become payable to them as a result of the Merger pursuant to any prior agreements with Avalon Properties. The Merger

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Employment Agreements provide for automatic one year renewals after the third year, unless an advance notice of non-renewal is provided by either party to the other at least six months prior to the expiration of the employment term, and an automatic extension of three years upon a change in control of the Company. During any renewal term, base salary increases will be equal to the greater of 5% of the prior year's base salary, a factor based on increases in the consumer price index, or an amount agreed upon by the parties.

In the event that the Company terminates the executive without Cause (as defined in the Merger Employment Agreements) or due to disability, the executive resigns for Good Reason (as defined in the Merger Employment Agreements, including, but not limited to, a material adverse change in duties and/or position, involuntary relocation, and material breach of the agreement by the Company), or if the executive resigns for any reason within 12 months following a change in control of the Company, then the executive is entitled to severance benefits equal to: (i) cash in an amount equal to three times (two times in the case of a termination due to disability) the sum of an average of prior years' (A) base salary, (B) cash bonus earned and (C) the value of stock and equity-based compensation awards granted (which value is to be determined by the Compensation Committee) (such average is referred to as the executive's "Covered Average Compensation"); (ii) 36 months of welfare insurance benefits (24 months

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in the case of a termination due to disability); (iii) the vesting of equity awards; and (iv) continued payment of the whole-life portion of the premiums due on a split-dollar life insurance policy for so long as such payments are due. In addition, if the Company elects not to renew the term of any of the Merger Employment Agreements still in effect, then upon the executive's termination of employment, the Company must provide the executive with the following severance benefits: (i) one times Covered Average Compensation; (ii) 24 months of welfare insurance benefits; (iii) vesting of equity awards; and (iv) continued payment of the whole-life portion of the premiums due on a split-dollar life insurance policy for so long as such payments are due.

Each of the Merger Employment Agreements provide that, in general, for one year following termination by the Company for Cause or termination by the executive (other than in the event of a constructive termination without Cause) prior to a change in control of the Company, the executive will not compete in the multifamily rental real estate business within 30 miles of residential real estate owned or managed by the Company. In addition, the agreements provide that for one year following termination, the executive will not solicit for employment the employees of the Company.

EMPLOYMENT AGREEMENT WITH CHIEF OPERATING OFFICER. In connection with his promotion to Chief Operating Officer in February 2001, Mr. Naughton entered into a three-year employment agreement with the Company. The agreement provides for automatic one year renewals after the third year, unless an advance notice of non-renewal is provided by either party to the other at least 90 days prior to the expiration of the employment term, and an automatic extension of three years upon a change in control of the Company. The agreement generally provides for severance benefits under the same circumstances as severance benefits arise under the Merger Employment Agreements. However, except in the case of a termination of employment in connection with a change in control of the Company, the cash severance due Mr. Naughton is less than the cash amount that would be due under the Merger Employment Agreements. In the case of a termination without Cause (or a resignation by Mr. Naughton for Good Reason) that is not in connection with a change in control or a non-renewal, the cash amount due is the sum of (A) two times (one times in the case of a termination due to a relocation requirement or due to disability) an average of base salary plus cash bonus earned in prior years plus (B) one times an average of the value of stock and equity-based compensation awarded in prior years. In addition, the cash severance due for a termination following a non-renewal of the agreement is one times an average of the base salary and cash bonus earned over the prior years and, if it is the executive that voluntarily resigns following a non-renewal, then equity-based awards are not accelerated and the Company is not obligated to continue making payments on Mr. Naughton's split-dollar life insurance policy. Non-compete and non-solicitation provisions apply under Mr. Naughton's

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agreement that are similar to the non-compete and non-solicitation provisions contained in the Merger Employment Agreements.

AGREEMENT WITH MR. MEYER. Mr. Meyer retired as Executive Chairman of the Company following the May 10, 2000 annual meeting of stockholders. Although Mr. Meyer retired from his position as an executive officer of the Company, he has continued to serve as a director and is standing for re-election as a director at the Annual Meeting. In connection with his retirement, the Company entered into a Mutual Release and Separation Agreement and a Retirement Agreement with Mr. Meyer. Under the terms of the Stock Incentive Plan, by reason of his retirement, all stock options owned by Mr. Meyer at the time of his retirement vested. In recognition of Mr. Meyer's contributions to the Company during the 22 years he served the Company, among the arrangements provided for in the Retirement Agreement were the payment to Mr. Meyer following his retirement of \$73,374 as a prorated bonus for his services during a portion of

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2000; the continued payment of the whole-life portion of the premiums on his split-dollar life insurance policy for so long as such premiums are due; and the forgiveness of a loan made by the Company in the amount of approximately \$91,000. In addition, certain option grants that had been made to Mr. Meyer, totalling 259,400 options in the aggregate, were amended so that the terms of such options would not expire until the end of the original grant terms. Mr. Meyer also entered into a three year consulting agreement with the Company. For a description of Mr. Meyer's consulting arrangement, see "Certain Relationships and Related Transactions."

AGREEMENT WITH MR. SLATER. The Company and Mr. Slater have agreed that Mr. Slater's role as an officer of the Company will cease as of April 30, 2001. In connection with Mr. Slater's departure, Mr. Slater and the Company entered into an agreement that provides, in general, that (i) Mr. Slater will make himself available as a consultant to the Company until March 29, 2002 (the expiration date of his current employment agreement), (ii) Mr. Slater is prohibited from engaging in a business that is competitive with the Company until March 29, 2002, and (iii) Mr. Slater is prohibited from soliciting for hire the Company's employees prior to March 29, 2004 (two years after the expiration of his current employment agreement). The Company agreed that Mr. Slater would, in general, be compensated through March 29, 2002, as if he were a full-time officer through that date (i.e., he will continue to be paid his base salary through March 29, 2002, and will receive a cash bonus and a grant of Common Stock and stock options in respect of 2001). In addition, beginning in April 2002, Mr. Slater will be paid, over 12 months, approximately \$1.4 million. Following the expiration of his employment agreement, Mr. Slater will receive medical and disability insurance benefits for 24 months (or until comparable benefits are provided by a successor employer) and the Company will continue to pay the whole-life portion of the premiums due on a split-dollar life insurance policy for so long as such payments are due. In connection with his departure and the expiration of his employment agreement, Mr. Slater's restricted stock grants and employee stock options will become fully vested. The stock options granted to Mr. Slater in February 2001 for year 2000 performance, and the stock options to be granted to Mr. Slater in respect of 2001, will also become fully vested; these options will not expire until February 2006 and February 2007, respectively. The Company also agreed with Mr. Slater to waive the Company's repurchase right with respect to Mr. Slater's "LLC shares" in AVB Realeum Employee LLC (see "Certain Relationships and Related Transactions.")

### COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

COMPOSITION OF COMPENSATION COMMITTEE. The Compensation Committee consists of Lance R. Primis (Chair), Bruce A. Choate, John J. Healy, Jr. and Brenda J. Mixson. The following is a summary of the compensation policies of the Company.

OBJECTIVES OF EXECUTIVE COMPENSATION. The Company's executive compensation program is intended to attract, retain and reward experienced, highly motivated executives who are capable of leading the Company effectively and contributing to its long-term growth and profitability. The Company's

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objective is to utilize a combination of cash and equity-based compensation to provide appropriate incentives for executives while aligning their interests with those of the Company's stockholders.

The Company compensates its executive officers primarily through a combination of annual base salary, annual cash bonuses and awards under the Stock Incentive Plan. During 2000, the Committee undertook a review of the total compensation paid to officers as compared to the compensation paid to officers of comparable REITs and other real estate companies that were selected based primarily on financial performance, market capitalization and geographic market

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diversity. An outside compensation consultant was retained to assist in this review. After considering the results of this study, and after considering the historical performance of the Company, the Committee determined that, in general, as a guiding principle the compensation of each officer would be targeted so that in a year when the Company achieves target performance (as determined by the Committee) each officer's total compensation (including the value of restricted shares and employee stock options) would be at approximately the 75th percentile of compensation paid to officers with similar functions and positions at REITs (regardless of property type) that are similar in size to the Company. This principle would serve only as a guide, and an officer could be targeted at more than or less than the 75th percentile based on performance, experience and tenure with the Company. The Committee also determined that, for the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, the composition of total compensation between base salary, cash bonus and long-term equity would be weighted so that, in a year when target performance is achieved, the base salary, cash bonus and long-term equity components of their compensation would comprise approximately 25%, 25% and 50% of their total compensation, respectively. In the case of other senior officers, the allocation would be more evenly distributed so that base salary and cash bonus would be a greater percentage of total compensation.

As described above, the Company's compensation program has three principal elements: base salary, a "corporate bonus program" under which an annual cash bonus is paid, and a "long-term incentive goal program" under which stock options and restricted shares are granted.

**BASE SALARY.** The Company establishes base salary levels for its key executives after reviewing their duties and making a subjective evaluation of recent performance, after reviewing base salary levels and total compensation for key executives of comparable REITs, and after determining the appropriate level of total compensation for the executive in a year when target performance is achieved.

**CASH BONUS.** Under the Company's corporate bonus program, the Compensation Committee may award annual cash bonuses to executive officers and certain other members of management for the achievement of specified performance goals for the Company and the individual. Each year, the Compensation Committee sets for each officer the cash bonus that may be awarded to that officer if threshold, target or maximum goals are achieved. For bonuses in respect of 2000, the goals for determining the cash bonuses that were actually awarded were (i) the achievement of a targeted level of Funds from Operations ("FFO") per share, (ii) the achievement of a targeted level of growth in same store net operating income, (iii) the achievement of a targeted average fixed charge coverage ratio, and (iv) an evaluation of management performance. The weightings applicable to each goal were set in advance. For 2001, the same goals (with new targets) will be employed. For the management performance factor in determining the cash bonus to be paid to officers, the Committee will make a subjective evaluation of the performance of management, as a whole, in accomplishing certain goals of the Company. In making that subjective evaluation, the Committee establishes in advance what accomplishments it is seeking of management.

**LONG-TERM INCENTIVE AWARDS.** Stock options and restricted stock granted under the Company's Stock Incentive Plan are designed to provide long-term performance incentives and rewards tied to the price of the Company's Common Stock. Generally, options will vest over a period of three years and shares of restricted stock will vest over a period of four years. Each year, the

Compensation Committee sets for each officer the threshold, target and maximum number of options and restricted shares that may be granted to that

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officer if threshold, target or maximum goals are achieved. The goals for determining the number of options and shares of restricted stock that were actually awarded in respect of 2000 were (i) total shareholder return on Common Stock during 2000, (ii) the multiple that the price of the Common Stock represents to the Company's FFO per share, as measured against a peer group of apartment REITs, and (iii) an evaluation of management performance. For 2001, the goals will be (i) total shareholder return on an absolute basis and on a relative basis as measured against a peer group of apartment REITs, (ii) the multiple that the price of the Company's Common Stock represents to FFO per share, as measured against a peer group of apartment REITs, and (iii) an evaluation of management performance. The weightings applicable to each goal have been set in advance. The Compensation Committee views stock options and restricted stock as a means of aligning management and stockholder interests and expanding management's long-term perspective.

COMPENSATION COMMITTEE PROCEDURES. The Company's executive compensation program is administered under the direction of the Company's Compensation Committee, none of whom are employed by the Company. Final compensation determinations for each fiscal year are generally made after the end of the fiscal year after financial statements for such year become available. At that time, cash bonuses and grants of stock options and restricted stock, if any, are determined based on the past year's performance, and base salaries and maximum cash bonuses and long term incentive awards for the following fiscal year are set. At meetings held on February 8, 2001 and February 13, 2001, the Compensation Committee determined annual cash bonuses under the corporate bonus program and awards of stock options and restricted stock under the long-term incentive goal program for its officers and certain key employees, as described in the Summary Compensation Table included in this Proxy Statement. The Committee also set financial targets to be used, along with areas for subjective evaluations of management and individual performance, in determining 2001 bonuses.

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER. The Compensation Committee considers the Company's financial performance to be the principal determinant in the overall compensation package of the Chief Executive Officer. In determining the cash bonuses and long term incentive awards that should be provided to this officer, the Compensation Committee considers the same financial criteria that are used for other officers. The Committee also considers individual performance of this officer.

The annual base salary for Mr. Michaux for 2000 was \$415,000 as of March 2000, and the Compensation Committee believes that this rate, when considered together with the cash bonus and long-term equity incentive compensation, is consistent with the Company's performance and his contributions to such performance and is in accord with industry practices. Under his Employment Agreement, the base salary for the chief executive officer is reviewed annually and may be increased but not decreased. Under the corporate bonus program, the Compensation Committee approved a \$412,500 cash bonus for Mr. Michaux with respect to 2000. The Compensation Committee also awarded Mr. Michaux options to purchase 70,000 shares of Common Stock based upon 2000 performance. These options will become exercisable in equal installments over a three-year period at an exercise price of \$45.95 per share, the last reported sale price of the Common Stock on the NYSE on the date of grant, February 13, 2001. This grant of options is intended to enhance the officer's long-term incentive to contribute to the Company's success, and was made without regard to his current share ownership. Finally, the Compensation Committee approved an award of 13,800 shares of restricted stock to Mr. Michaux based upon 2000 performance. One-fifth of these shares vested on February 13, 2001, and the remaining shares vest in four equal annual installments. The cash bonus and long term incentive awards were made following a review by the Committee of the financial performance of the Company and the individual performance of the officer, as described above.

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COMPENSATION OF OTHER EXECUTIVE OFFICERS. The Company's executive compensation program for other executive officers is based on the same performance goals and other factors described above for

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the Chief Executive Officer. The quantitative performance goals and the relative weighting of the quantitative performance factors described above are the same; the factors used in making a subjective evaluation of officer performance varies, however. The Compensation Committee considers the evaluations and recommendations of the Chief Executive Officer with respect to the compensation of the other executive officers of the Company. In recognition of the Company's achievements during 2000, the Compensation Committee approved the Named Executive Officers' cash bonuses described in the Summary Compensation Table for the Company's fiscal year 2000 pursuant to the corporate bonus program.

For all of the Named Executive Officers, the Compensation Committee also considers stock options and restricted stock grants to be an important component of total compensation. As a result of such grants, the Named Executive Officers will, like the Company's other stockholders, benefit from an appreciation in the Common Stock price. Based on 2000 performance, following the end of 2000 the Compensation Committee authorized the grant to Messrs. Blair, Slater, Sargeant, and Fuller, of options to purchase 68,000, 53,000, 46,000, and 44,500 shares of Common Stock, respectively. All of these options become exercisable in three equal annual installments at an exercise price of \$45.95 per share, the last reported sale price of the Common Stock on the NYSE on the date of grant, February 13, 2000. In addition, the Compensation Committee approved the grant to each of Messrs. Blair, Slater, Sargeant, and Fuller of 13,300, 11,000, 9,925, and 8,500 shares of restricted stock, respectively. In each case, one-fifth of the shares granted vested on February 13, 2000, and the remaining four-fifths vest in four equal annual installments.

The SEC requires that this report comment upon the Company's policy with respect to Section 162(m) of the Code, which limits the deductibility on the Company's tax return of compensation over \$1 million to any of the Named Executive Officers of the Company unless, in general, the compensation is paid pursuant to a plan which is performance-related, non-discretionary and has been approved by the Company's stockholders. The Company believes that, because it qualifies as a REIT under the Code and because all distribution requirements under the Code were satisfied, the Company is not subject to federal income taxes, and the payment of compensation that does not satisfy the requirements of Section 162(m) will not affect the Company's net income. To the extent that compensation does not qualify for deduction under Section 162(m) a larger portion of stockholder distributions may be subject to federal income taxation as dividend income rather than return of capital. The Company does not believe that Section 162(m) will materially affect the taxability of stockholder distributions, although no assurance can be given in this regard due to the variety of factors that affect the tax position of each stockholder. For these reasons, the Compensation Committee's compensation policy and practices are not directly guided by considerations relating to Section 162(m).

SUBMITTED BY THE COMPENSATION COMMITTEE:

Lance R. Primis (Chair)  
Bruce A. Choate  
John J. Healy, Jr.  
Brenda J. Mixson

REPORT OF THE AUDIT COMMITTEE

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for

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the financial statements and the reporting process. The Company's independent auditors are responsible for expressing an opinion on the conformity of the Company's audited financial statements to generally accepted accounting principles.

In this context during 2000, the Audit Committee reviewed and discussed the audited financial statements with management and the independent auditors. The Audit Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards

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No. 61 (Communication with Audit Committees). In addition, the Audit Committee received from the independent auditors the written disclosures required by Independence Standards Board No. 1 (Independence Discussions with Audit Committees) and discussed with the independent auditors their independence from the Company and its management.

Relying on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Company's Annual Report on SEC Form 10-K for the year ended December 31, 2000, for filing with the SEC.

SUBMITTED BY THE AUDIT COMMITTEE

Bruce A. Choate (Chair)  
Michael A. Futterman  
Lance R. Primis  
Allan D. Schuster

### FISCAL 2000 AUDIT FEE SUMMARY

During fiscal year 2000, the Company retained its principal auditor, Arthur Andersen LLP, to provide services in the following categories and approximate amounts:

Audit fees	\$162,500
Financial information systems design and implementation fees	\$856,000 (1)
All other fees	\$325,000

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(1) Of this amount, \$509,000 were fees paid by Realeum, Inc. during all of 2000 to Arthur Andersen LLP for financial information systems design and implementation fees. The Company was one of three real estate investment trusts that formed Realeum, Inc., and after Realeum received third party venture financing in August 2000, the Company retained only a minority interest in Realeum.

The Audit Committee has considered and determined that the provision of the non-audit services described above is compatible with maintaining the auditor's independence.

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### STOCK PERFORMANCE GRAPH

The following graph provides a comparison, from December 1995 through



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December 2000, of the cumulative total stockholder return (assuming reinvestment of any dividends) among the Company, the Standard & Poor's ("S&P") 500 Index, and a peer group index composed of 19 publicly-traded apartment REITs, including the Company (the "NAREIT Apartment Index"). The NAREIT Apartment Index includes only REITs that invest directly or indirectly solely in the equity ownership of multifamily residential apartment communities. Upon written request to the Company's Secretary, the Company will provide any stockholder with a list of the REITs included in the NAREIT Apartment Index.

	12/95 -----	6/96 -----	12/96 -----	6/97 -----	12/97 -----	6/98 -----	12/98 -----
AvalonBay	100	110.17	157.77	166.01	178.75	178.10	167.68
Apartment REITs	100	106.11	128.93	136.93	149.61	146.40	136.48
S&P 500	100	110.10	122.96	148.30	163.99	193.04	210.86
12/00 -----							
AvalonBay	274.63						
Apartment REITs	204.81						
S&P 500	231.96						

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

	AVALONBAY	APARTMENT REITs	S&P 500
12/95	100	100	100
6/96	110.17	106.11	110.10
12/96	157.77	128.93	122.96
6/97	166.01	136.93	148.30
12/97	178.75	149.61	163.99
6/98	178.10	146.40	193.04
12/98	167.68	136.48	210.86
6/99	186.76	154.82	236.95
12/99	180.19	151.12	255.20
6/00	223.58	173.43	254.11
12/00	274.63	204.81	231.96

The historical information set forth above is not necessarily indicative of future performance. Data for the NAREIT Apartment Index and the S&P 500 Index were provided to the Company by NAREIT.

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee consists of Lance R. Primis, Bruce A. Choate, John J. Healy, Jr., and Brenda J. Mixson. None of them has served as an officer of the Company or any of its subsidiaries. No member of the Compensation Committee has any other business relationship or affiliation with the Company or any of its subsidiaries (other than his or her service as a director).

### PRINCIPAL STOCKHOLDERS

The following table sets forth the beneficial ownership of Common Stock as to (i) each person or entity who is known by the Company to have beneficially owned more than five percent of the Common Stock as of December 31, 2000,

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(ii) each of the Company's directors and Nominees, (iii) each of the Named Executive Officers, and (iv) all directors and executive officers as a group, based on representations of officers and directors of the Company as of February 1, 2001 (unless otherwise indicated) and filings through February 2001 received by the Company on Schedule 13G and Schedule 13D under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All such information was provided by the stockholders listed (unless otherwise indicated) and reflects their

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beneficial ownership known by the Company. All percentages have been calculated as of February 1, 2001 and are based upon 67,366,948 shares of Common Stock outstanding at the close of business on such date (unless otherwise indicated).

NAME AND BUSINESS ADDRESS OF BENEFICIAL OWNER -----	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED (1) -----	PERCENTAGE OF COMMON STOCK (%) -----
Gilbert M. Meyer.....	1,442,965 (2)	2.1
Richard L. Michaux.....	706,989 (3)	1.0
Bruce A. Choate.....	42,500 (4) (5)	
Michael A. Futterman.....	61,215 (5) (6) (7)	
John J. Healy, Jr.....	41,000 (8) (9)	
Brenda J. Mixson.....	46,000 (4)	
Lance R. Primis.....	24,000 (10)	
Allan D. Schuster.....	58,435 (7) (11)	
Bryce Blair.....	334,841 (12)	
Thomas J. Sargeant.....	207,504 (13)	
Robert H. Slater.....	328,056 (14)	
Samuel B. Fuller.....	169,762 (15)	
Charles D. Peebler, Jr.....	--	
Amy P. Williams.....	--	
All directors and executive officers as a group (16 persons).....	3,732,397 (16)	5.5
LaSalle Investment Management, Inc. 200 East Randolph Drive, Chicago, Il 60601.....	5,312,520 (17)	7.7
Cohen & Steers Capital Management, Inc. 757 Third Avenue, New York, NY 10017.....	4,860,800 (18)	7.2
Stichting Pensioenfonds ABP Oude Lindestraat 70, Postbus 2889, 6401 DL Heerlen, The Netherlands.....	3,719,062 (19)	5.5
Morgan Stanley Dean Witter & Co. 1585 Broadway, New York, NY 10036.....	6,902,392 (20)	10.2

\* Less than one percent

(1) Except as otherwise noted, each individual in the table above has the sole voting and investment power over the shares listed. Each individual disclaims beneficial ownership as to any reported ownership by a spouse or child.

(2) Includes (i) 521,400 shares issuable upon the exercise of stock options that vest on or before April 1, 2001 and (ii) 921,565 shares owned jointly with spouse. Does not include 26,008 shares issuable in the future under deferred stock awards granted pursuant to elections made under the Stock

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Incentive Plan.

- (3) Includes (i) 253,209 shares issuable upon the exercise of stock options that vest on or before April 1, 2001, (ii) 2,173 shares owned by Mr. Michaux's spouse, and (iii) 52,244 shares owned by The Michaux Family LLC.
- (4) Includes 38,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2001.
- (5) Does not include 7,774 shares issuable in the future under a deferred stock award granted pursuant to an election under the Stock Incentive Plan.
- (6) Includes 7,683 shares held jointly with spouse.

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- (7) Includes 49,195 shares issuable upon the exercise of stock options that vest on or before April 1, 2001.
- (8) Includes 35,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2001.
- (9) Does not include 4,274 shares issuable in the future under a deferred stock award granted pursuant to an election under the Stock Incentive Plan.
- (10) Includes 20,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2001. Does not include 2,333 shares issuable in the future under a deferred stock award granted pursuant to an election under the Stock Incentive Plan.
- (11) Does not include 1,659 shares issuable in the future under a deferred stock award granted pursuant to an election under the Stock Incentive Plan.
- (12) Includes 256,816 shares issuable upon the exercise of stock options that vest on or before April 1, 2001.
- (13) Includes (i) 165,694 shares issuable upon the exercise of stock options that vest on or before April 1, 2001, (ii) 1,352 shares held by Mr. Sargeant's spouse and (iii) 1,382 shares held in trust for minor children.
- (14) Includes (i) 229,611 shares issuable upon the exercise of stock options that vest on or before April 1, 2001 and (ii) 1,152 shares owned indirectly for minor children.
- (15) Includes 129,892 shares issuable upon the exercise of stock options that vest on or before April 1, 2001.
- (16) Does not include the beneficial ownership of executive officers whose employment with the Company terminated prior to the date of this Proxy Statement.
- (17) The information reported includes 4,371,638 shares beneficially owned by LaSalle Investment Management (Securities), L.P. ("LaSalle Securities"), a Maryland limited partnership, the limited partner of which is LaSalle Investment Management, Inc. ("LaSalle"). Information reported is based upon a Schedule 13G filed with the SEC on February 12, 2001 reporting beneficial ownership as of December 31, 2000. The Schedule 13G indicates that the reporting entities are investment advisers registered under Section 203 of the Investment Advisers Act of 1940. The Schedule 13G also indicates that (i) LaSalle has shared dispositive power with respect to 940,882 shares and shared voting power with respect to 245,858 shares, and (ii) LaSalle Securities has sole dispositive power with respect to 233,030 shares,

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shared dispositive power with respect to 4,138,608 shares, sole voting power with respect to 285,724 shares and shared voting power with respect to 3,945,425 shares.

- (18) Information reported is based upon a Schedule 13G filed with the SEC on February 14, 2001 reporting beneficial ownership as of December 31, 2000. This Schedule 13G indicates that the reporting entity is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940. The Schedule 13G also indicates that the reporting entity has sole dispositive power with respect to all of the shares and sole voting power with respect to 4,091,500 of the shares. The reporting entity has no shared dispositive or voting power with respect to the shares.
- (19) Information reported is based upon a Schedule 13D filed with the SEC on December 19, 2000 reporting beneficial ownership as of August 31, 2000. The Schedule 13D indicates that the reporting entity has sole dispositive power and sole voting power with respect to all of the shares. The reporting entity has no shared dispositive or voting power with respect to the shares.

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- (20) The information reported includes 3,360,926 shares beneficially owned by Morgan Stanley Dean Witter Investment Management Inc., ("Morgan Stanley Investment"), a wholly owned subsidiary of Morgan Stanley Dean Witter & Co. ("Morgan Stanley"). Information reported is based upon a Schedule 13G filed with the SEC on February 8, 2001 reporting beneficial ownership as of December 31, 2000. The Schedule 13G indicates that the reporting entities are investment advisers registered under Section 203 of the Investment Advisers Act of 1940. The Schedule 13G also indicates that (i) Morgan Stanley has shared dispositive power with respect to 3,541,466 shares and shared voting power with respect to 2,964,960 shares, and (ii) Morgan Stanley Investment has shared dispositive power with respect to 3,360,926 shares and shared voting power with respect to 2,797,520 shares.

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires persons who are officers of the Company as defined by Section 16 and directors and persons who own more than 10% of a registered class of the Company's equity securities (collectively, "Insiders") to file reports of ownership and changes in ownership with the SEC and one national securities exchange on which such securities are registered. In accordance with Rule 16a-3(c) under the Exchange Act, the Company has designated the NYSE as the national securities exchange with which reports pursuant to Section 16(a) of the Exchange Act need be filed. Insiders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of copies of such reports and written representations that no other reports were required during the fiscal year ended December 31, 2000, all filing requirements applicable to the Insiders were timely satisfied.

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### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

#### CERTAIN BUSINESS RELATIONSHIPS

#### PURCHASE OF MORTGAGE LOAN.

Messrs. Michaux and Blair are partners of an entity that is the general partner of Arbor Commons Associates Limited Partnership ("Arbor Commons Associates"). Concurrently with Avalon Properties' initial public offering in

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November 1993 (the "Avalon Properties Offering"), Avalon Properties purchased an existing participating mortgage loan made to Arbor Commons Associates that was originated by CIGNA Investments, Inc. The mortgage loan is secured by the borrower's interests in the Avalon Arbor community. Avalon Properties purchased the mortgage loan, rather than the Avalon Arbor community, to avoid the current recapture of certain low income housing tax credits by certain unaffiliated third party investors. This loan has an outstanding principal amount of approximately \$30 million and accrues interest at a fixed rate of 10.2% per annum, payable at 9% per annum. Under the terms of the loan, the Company (as successor to Avalon Properties) receives (as contingent interest) 50% of the cash flow after the 10.2% accrual rate is paid and 50% of the residual profits upon the sale of the community.

SUBLEASE OF SAN JOSE OFFICE SPACE TO GREENBRIAR HOMES.

Following a consolidation of accounting functions in Alexandria, Virginia, the Company determined to sublease to a third party approximately 8,500 square feet of space in its San Jose office. Greenbriar Homes, of which Gilbert M. Meyer, a director, is the founder and a controlling stockholder, already had office space in the same building as the Company. Greenbriar Homes expressed an interest in subleasing the space from the Company. The Company obtained two competing bids after a search was conducted by an independent broker. The net receipts to the Company under the two competing bids and under the offer by Greenbriar Homes would have been nearly identical, after taking into account brokerage commissions and moving, cleaning and relocation expenses. Based on the nearly identical net receipts, and the fact that the Company determined that Greenbriar would be a better credit risk given that it was known well to the Company, the Company determined to sublease the space to Greenbriar Homes. Under the lease, which runs from September 1, 1999 to August 31, 2001, Greenbriar Homes pays to the Company approximately \$20,552 per month to sublease the space.

INDEBTEDNESS OF MANAGEMENT.

The Company has adopted a loan program under which the Company lends amounts to or on behalf of employees ("Stock Loans") equivalent to the employees' tax liabilities related to grants of restricted stock to the employees under the Stock Incentive Plan (the "Grant Awards"). The amount of each advance extended to an employee under a Stock Loan is determined on the date or dates on which the Grant Award vests and equals the amount of the tax liability related to the portion of the Grant Award then vesting, calculated using the employee's actual blended state, local and federal tax rate up to a maximum rate of 40% plus the tax liability related to the then current projected annual dividend income generated by the Grant Award calculated at a 40% tax rate (federal, state and local combined). Each employee who receives such a Stock Loan executes a promissory note (a "Note") payable to the Company.

Each Note bears interest at the Long Term Applicable Federal Rate (6.49% for Stock Loans made in 2000) in effect on the date of the Note (the "Interest Rate") and such rate is fixed until the fifth anniversary of the Note, on or after which date the Note becomes immediately due and payable upon demand by the Company (the "Maturity Date"). After the fifth anniversary of the Note and until the Maturity Date, interest continues to accrue at either the Interest Rate or, if the prevailing Short Term Applicable Federal Rate is greater or less than the Interest Rate by an increment of 4.0%, then interest accrues at the prevailing Short Term Applicable Federal Rate. Vested shares of the Grant Award serve

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as collateral (the "Pledged Stock") for each Note until such time as the Note has been paid in full. All dividends related to the employee's Grant Award (including dividends on unvested shares) are applied to the outstanding Stock Loan balance, first to interest, then to outstanding principal. If the market

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value of the Pledged Stock declines such that the Stock Loan exceeds 50% of the value of the Pledged Stock (the "LTV ratio"), then the Company may require the employee to make a cash payment sufficient to bring the LTV ratio below 50%, or the Company may sell or otherwise dispose of the amount of Pledged Stock needed to bring the LTV ratio below 50%. The Company's recourse against an employee under the Notes for satisfaction of the Stock Loans and all other amounts due is limited to the Company's rights in the Pledged Stock.

As of December 31, 2000, the Company had extended Stock Loans totaling \$770,173 to its employees, including the amounts of \$265,472, \$129,399, and \$89,738 which were extended to Messrs. Michaux, Blair and Sargeant, respectively.

Pursuant to a Promissory Note and Pledge and Security Agreement dated June 15, 2000, the Company advanced to Mr. Fuller \$450,000, of which approximately \$79,000 was used to repay amounts he had previously borrowed under the Stock Loan program described above and approximately \$371,000 was used for personal purposes. Until the fifth anniversary of this loan, the loan bears interest at the rate of 6.49%, which was the Long Term Applicable Federal Rate in effect at the time the loan was made. After the fifth anniversary, the loan will bear interest at 6.49%, or, if the prevailing Short Term Applicable Federal Rate then in effect is greater than 10.49% or less than 2.49%, then at the prevailing Short Term Applicable Federal Rate thereafter in effect from time to time. This is a full recourse loan, and in addition is secured by a pledge of 19,833 shares of Common Stock owned by Mr. Fuller (including 4,625 shares still subject to vesting) as well as Mr. Fuller's rights in 183,178 employee stock options (including options still subject to vesting). Dividends on the Common Stock securing the loan are applied to payment of interest and principal on the loan, and as of December 31, 2000, \$448,589 was outstanding. If this loan is not repaid in full by June 15, 2005, then at any time thereafter the Company in its sole discretion may demand repayment. In addition, Mr. Fuller will be required to repay the loan in full within sixty days following his termination of employment with the Company for any reason.

### ARRANGEMENT REGARDING COMMISSION PAYABLE BY A THIRD PARTY.

In 1998, American Realty Capital, Inc. ("American Realty"), a closely held real estate company of which Michael A. Futterman, a director of the Company who is not standing for re-election, is the Chairman, became aware that a parcel of land was available for sale in Stamford, Connecticut. Mr. Futterman informed the President of Avalon Properties that the site was available and introduced representatives of Avalon Properties to the person holding a purchase right to the site (the "Site Contract Owner"). After review, Avalon Properties decided that it was not interested at that time in pursuing the acquisition of the site. After Avalon Properties determined that it would not pursue the site, American Realty agreed in writing with the Site Contract Owner that, if American Realty successfully acted as agent in locating a buyer for the site, American Realty would earn a commission. After the Merger, the Company determined that, due to changed circumstances, the site could fit well with the Company's development strategy, and the Company negotiated a purchase agreement with the Site Contract Owner. Pursuant to American Realty's agreement with the Site Contract Owner, when the Company's purchase agreement closed in May 2000 American Realty was paid a commission of \$250,000.

### INDIRECT GRANT AND SALE OF INTERESTS IN REALEUM, INC.

The Company, together with other leading real estate investment trusts, formed Realeum, Inc. to develop a web-based property management operating solution. On August 18, 2000, Realeum, Inc. received third party venture capital financing, which reduced the Company's equity stake in Realeum to

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a minority position. In connection with the formation of Realeum, the Company transferred 991,750 shares of non-voting common stock in Realeum (approximately 12% of the Company's holdings in Realeum) to a newly formed entity, AVB Realeum Employee LLC (the "Employee LLC"). The Employee LLC then granted or sold 991,750 "LLC shares," representing all of the membership interests in the Employee LLC, to associates of the Company. Specifically, the Company granted 1,000 LLC shares to 99 associates (including officers of the Company) and sold 891,750 LLC shares to officers of the Company. The value of the non-voting common stock, as determined by the Company and the Realeum Board of Directors, was \$0.33 per share. Although each LLC share in the Employee LLC results in an indirect economic interest in one non-voting share of common stock of Realeum, the Company as managing member of the Employee LLC has complete power over the disposition or, where applicable, voting of the Realeum shares held by the Employee LLC. Messrs. Michaux, Blair, Slater and Fuller purchased 86,393, 83,317, 81,274 and 58,389 LLC shares, respectively. (Mr. Sargeant did not receive a grant of LLC shares nor did he have the opportunity to purchase LLC shares. However, in his capacity as a director of Realeum, Mr. Sargeant received directly from Realeum a grant of 418,171 restricted shares of Realeum common stock that are subject to vesting).

The 1,000 LLC shares granted to each of 99 associates vest over four years. Upon a termination of employment the unvested LLC shares are forfeited (except in the case of a termination by the Company without Cause) and the vested LLC shares are subject to a one year repurchase right by the Company for fair market value. The LLC shares that were purchased by officers also vest over four years. Upon a termination of employment, the Company will have the right (i) to purchase any vested LLC shares for fair market value during the following year, and (ii) to repurchase any unvested LLC shares for the lesser of (a) fair market value or (b) their original purchase price plus an amount in the nature of interest thereon at 8% per annum.

### CONSULTING AND NONCOMPETITION ARRANGEMENT WITH MR. MEYER.

In March 2000, the Company and Mr. Meyer announced that Mr. Meyer would retire as Executive Chairman of the Company following the 2000 annual meeting of stockholders. Although Mr. Meyer ceased his day to day involvement with the Company as an executive officer, Mr. Meyer continues to serve as a director and is standing for re-election as a director. In addition, pursuant to a consulting agreement, Mr. Meyer agreed to serve as a consultant to the Company for three years following his retirement. In such capacity he assists with respect to transitional matters that may arise in connection with his retirement, he responds to requests for assistance or information concerning business matters with which he became familiar while employed, and he provides business advice and counsel to the Company with respect to business strategies and acquisitions, dispositions, development and redevelopment of multifamily rental properties. In addition, Mr. Meyer agreed that during the three year consulting period he will not participate, as an officer, employee, consultant or in any other manner, in the affairs of a publicly-traded REIT or publicly-traded real estate company that, in either case, is primarily or significantly involved in the ownership, operation, management or rental of multifamily apartment homes. During the three-year consulting and noncompetition arrangement, the Company will pay to Mr. Meyer an annual fee of \$1,395,000. In addition, in recognition of extra efforts that were needed during the first four calendar quarters of his retirement on account of transitional matters, the Company paid to Mr. Meyer an additional 5,880 shares of Common Stock per calendar quarter. In addition to the consulting agreement, in connection with Mr. Meyer's retirement the Company also entered into a Mutual Release and Separation Agreement and a Retirement Agreement (see "Employment Agreements and Severance Arrangements"). Pursuant to the Retirement Agreement, additional noncompetition arrangements of a more restrictive nature than described above will apply for so long as Mr. Meyer serves as a director of the Company.

PROPOSAL 2  
AMENDMENT OF 1994 STOCK INCENTIVE PLAN,  
AS AMENDED AND RESTATED

PROPOSED AMENDMENT

In March 2001, the Board of Directors voted to amend the Stock Incentive Plan to change the manner in which increases in the size of the Stock Incentive Plan will be determined. The Board is recommending this amendment to the Company's stockholders for approval. The amendment to the Stock Incentive Plan described below will become effective only if this Proposal 2 is approved by the Company's stockholders.

As currently written, without giving effect to the proposed amendment, the number of shares (i.e., shares underlying options, restricted shares, deferred stock awards, etc.) available for issuance each year under the Stock Incentive Plan will increase by 9.9% of any net increase in the number of outstanding shares of Common Stock during the year. Specifically, the number of shares presently available for issuance is the sum of (a) 2,500,000 shares of Common Stock and (b) an amount equal to 9.9% of the net increase in the number of shares of Common Stock outstanding from time to time after April 13, 1998. Immediately after the June 4, 1998, merger of Avalon Properties, Inc. and Bay Apartment Communities, the size of the Stock Incentive Plan was 6,200,238 and, after giving effect to awards that had been made and not forfeited, 4,225,492 shares were then available for issuance under the plan. As of March 1, 2001, the size of the plan was 6,576,859, an increase of only 376,621 shares over the last thirty-four months. Of this amount, after giving effect to awards that have been made and not forfeited, as of March 1, 2001, 2,357,384 shares remained available for issuance under the plan.

The proposed amendment is to change the manner in which the annual increase in the number of shares available for issuance under the Stock Incentive Plan is determined so that the increase in the plan size no longer depends on increases in the outstanding number of shares of Common Stock. Instead, the plan size would be increased at the end of each year by adding to the plan a number of shares equal to a percentage (ranging from 0.48% to 1.00%) of all outstanding shares of Common Stock at the end of the year (this number of outstanding shares is referred to below as the "Year End Outstanding Shares"). (In determining the number of Year End Outstanding Shares, it would be assumed that all units of limited partnership interests in subsidiary partnerships structured as DownREITs that are subject to redemption rights are exchanged for shares of Common Stock. At March 1, 2001, the Company had 67,378,263 shares of Common Stock outstanding as well as 670,671 DownREIT units that would be included in the Year End Outstanding Shares.) The exact percentage used would be determined based on the percentage of all awards made under the Stock Incentive Plan during the calendar year that were in the form of stock options with an exercise price equal to the fair market value of a share of Common Stock on the date of the grant. More specifically, the percentage

of the Year End Outstanding Shares that would be added to the size of the Stock Incentive Plan each year would be determined pursuant to the following table:

IF OPTIONS GRANTED DURING THE  
CALENDAR YEAR CONSTITUTE THE  
FOLLOWING PERCENTAGE OF ALL AWARDS

THEN THE SIZE OF THE STOCK INCENTIVE PLAN  
WOULD BE INCREASED BY ADDING A  
NUMBER OF SHARES EQUAL TO THE



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MADE UNDER THE STOCK INCENTIVE  
PLAN DURING THE CALENDAR YEAR:

FOLLOWING PERCENTAGE OF THE  
"YEAR END OUTSTANDING SHARES":

50.00 to 52.49%	0.48%
52.50 to 54.99	0.50
55.00 to 57.49	0.52
57.50 to 59.99	0.55
60.00 to 62.49	0.58
62.50 to 64.99	0.61
65.00 to 67.49	0.64
67.50 to 69.99	0.68
70.00 to 72.49	0.72
72.50 to 74.99	0.76
75.00 to 77.49	0.82
77.50 to 79.99	0.87
80.00 to 82.49	0.94
82.50 to 84.99	0.96
85.00% or more	1.00

EXAMPLE: To illustrate how the formula in the above table would work, assume that during calendar year 2002 the only awards made by the Company under the Stock Incentive Plan were an aggregate of 800,000 stock options and shares of restricted stock. Of these, 640,000 (or 80%) were options and 160,000 (or 20%) were restricted shares. As of December 31, 2002, assume that the Company had outstanding 67,000,000 shares of Common Stock and 1,000,000 units of limited partnership interest in DownREIT partnerships that may be exchanged for shares of Common Stock. Therefore, following the table above, this means that on December 31, 2002, the Company would increase the number of available shares under the Stock Incentive Plan by multiplying 68,000,000 by 0.94%, (i.e., 639,200 shares of Common Stock would be added to the number of available shares reserved under the Stock Incentive Plan).

If the proposal is adopted, the Stock Incentive Plan would also be amended to provide that at least 50% of the awards granted under the Stock Incentive Plan in any calendar year shall be in the form of stock options with an exercise price equal to the fair market value of a share of Common Stock on the date of grant.

The number of shares of Common Stock reserved for issuance under the Stock Incentive Plan will remain subject to adjustment for stock splits, stock dividends and similar events.

### REASONS FOR AMENDMENT

The Board of Directors believes that stock options and other stock-based awards play an important role in the success of the Company and that it will be necessary to continue making awards to attract, motivate and retain the caliber of directors, officers and other employees necessary for our future growth and success. The Board believes that the proposed amendment to the Stock Incentive Plan is necessary to provide for an adequate number of awards available for grant under the Stock Incentive Plan. From January 1, 1999 through December 31, 2000, the Company achieved a total return for stockholders of 63.4% (27.8% on an annualized basis). As described in our Report on Form 10-K for the year ended December 31, 2000 (being mailed with this proxy statement), during this period the Company also achieved significant increases in funds from operation per share. To finance the

Company's operations, the Company has relied primarily on a self-funding

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strategy (retaining cash flow and recycling capital from asset sales) and the selective use of debt and preferred stock. This financing strategy has enabled us to finance our operations while maintaining a conservative and flexible capital structure and dividend payout ratio.

From the time of the closing of the June 4, 1998, Merger, the number of outstanding shares of Common Stock has increased by only approximately 6%, and therefore the Board believes that the current procedure of annually increasing the size of the Stock Incentive Plan based on increases in outstanding shares of Common Stock is not appropriate. This method does not adequately recognize that the Company has been able to fund significant growth without issuing large amounts of common equity. Rather, the Board believes that the procedure for increasing the plan size set forth in the proposed amendment is more appropriate. With this procedure, the size of the Stock Incentive Plan would be increased at the end of each year by adding a number of shares equal to between 0.48% and 1.00% of the outstanding shares of Common Stock and DownREIT units at the end of each year. This methodology for increasing the Stock Incentive Plan size recognizes that the Company will need to continue to make stock based awards to attract and retain talented executives even if the outstanding number of shares of Common Stock and DownREIT units does not increase significantly.

As noted in the Report of the Compensation Committee of the Board of Directors, the Board believes that grants of long-term, equity-based awards should comprise a significant percentage of the compensation of officers in order to motivate, incentivize and retain these individuals. The Board believes that the proposed amendment will give the Company the flexibility to continue providing appropriate levels of equity-based compensation to officers and associates. Accordingly, the Board believes that the proposed amendment is in the best interest of stockholders and recommends that stockholders approve the proposed amendment.

### SUMMARY OF THE STOCK INCENTIVE PLAN

The following description of material terms of the Stock Incentive Plan, as amended, is intended to be a summary only. This summary is qualified in its entirety by the full text of the Stock Incentive Plan, as amended, which is being filed with the SEC as an appendix to the "Schedule 14A" in which this proxy was filed.

**STOCK INCENTIVE PLAN ADMINISTRATION.** The Stock Incentive Plan provides for administration by a committee of not fewer than two non-employee directors (the "Administrator"), as appointed by the Board of Directors from time to time.

The Administrator has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the Stock Incentive Plan. Without prior stockholder approval, the Administrator may not reprice outstanding options, other than to appropriately reflect changes in the capital structure of the Company.

**ELIGIBILITY AND LIMITATIONS ON GRANTS.** All officers, employees, directors and other key persons of the Company and its subsidiaries are eligible to participate in the Stock Incentive Plan, subject to the discretion of the Administrator. Approximately 1,600 employees and seven non-employee directors are currently eligible to participate in the Stock Incentive Plan. In no event may any one participant receive options to purchase more than 300,000 shares of Common Stock (subject to adjustment for stock splits and similar events) during any one-calendar-year period. In addition, the maximum award of restricted stock, performance shares or deferred stock (or combination thereof) for any one individual that is intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code")

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will not exceed 200,000 shares of Common Stock (subject to adjustment for stock splits and similar events) for any performance cycle.