

AVALONBAY COMMUNITIES INC  
Form DEF 14A  
March 27, 2006  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## SCHEDULE 14A

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

Filed by the Registrant

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Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
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### AVALONBAY COMMUNITIES, INC.

(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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  - (1) Title of each class of securities to which transaction applies:
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  - (4) Proposed maximum aggregate value of transaction:
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2900 Eisenhower Avenue, Suite 300  
Alexandria, Virginia 22314

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 17, 2006**

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NOTICE IS HEREBY GIVEN that the 2006 Annual Meeting of Stockholders (the Annual Meeting ) of AvalonBay Communities, Inc., a Maryland corporation (the Company ), will be held on Wednesday, May 17, 2006 at 9:00 a.m. local time at The Mandarin Oriental Hotel, 222 Sansome Street, San Francisco, CA 94104, for the following purposes:

1. To elect nine directors to serve until the 2007 Annual Meeting of Stockholders and until their respective successors are elected and qualify from among the following nominees: Bryce Blair, Bruce A. Choate, John J. Healy, Jr., Gilbert M. Meyer, Timothy J. Naughton, Lance R. Primis, H. Jay Sarles, Allan D. Schuster and Amy P. Williams.
2. To vote on ratifying the Company s selection of Ernst & Young LLP as its independent auditors for 2006.
3. To transact such other business as may be properly brought before the Annual Meeting and at any postponements or 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 postponement or adjournment, the Annual Meeting may be postponed or adjourned.

The Board of Directors has fixed the close of business on March 8, 2006 as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof. Only holders of record of the Company s common stock, par value \$0.01 per share (the Common Stock ), at that time will be entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof.

You are requested to authorize a proxy to vote your shares by filling in and signing the enclosed proxy card, which is being solicited by the Board of Directors, and by mailing 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 properly executed, later dated proxy. Holders 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 3, 2006

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**Proxy Statement**

**Table of Contents**

|   | Page |
|---|------|
| <u>I. GENERAL INFORMATION ABOUT THE ANNUAL MEETING</u>  | 1    |
| <u>II. PROPOSALS</u>  | 2    |
| <u>Proposal 1 Election of Directors</u>   | 2    |
| <u>Required Vote and Recommendation</u>   | 2    |
| <u>Information regarding Nominees</u>   | 3    |
| <u>Proposal 2 Ratification of Selection of Independent Public Auditors</u>                              | 6    |
| <u>Required Vote and Recommendation</u>   | 6    |
| <u>Other Matters</u>  | 6    |
| <u>III. CORPORATE GOVERNANCE AND RELATED MATTERS</u>  | 7    |
| <u>Code of Ethics and Corporate Governance Guidelines</u>   | 7    |
| <u>Board of Directors and its Committees</u>  | 7    |
| <u>Contacting the Board</u>   | 10   |
| <u>Director Compensation</u>  | 10   |
| <u>Report of the Audit Committee</u>  | 10   |
| <u>Fiscal Year 2004 and 2005 Audit Fee Summary</u>  | 11   |
| <u>Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors</u> | 11   |
| <u>Certain Relationships and Related Transactions</u>   | 11   |
| <u>IV. EXECUTIVE COMPENSATION AND OTHER INFORMATION</u>   | 12   |
| <u>Executive Compensation</u>   | 12   |
| <u>Option Grants with respect to Fiscal Year 2005</u>   | 14   |
| <u>Option Exercises and Year-End Holdings</u>   | 15   |
| <u>Executive and Senior Officers</u>  | 15   |
| <u>Employment Agreements and Severance Arrangements</u>   | 19   |
| <u>Compensation Committee Report on Executive Compensation</u>  | 21   |
| <u>Compensation Committee Interlocks and Insider Participation</u>                                      | 23   |
| <u>V. STOCK PERFORMANCE, STOCK OWNERSHIP AND OTHER INFORMATION</u>                                      | 24   |
| <u>Stock Performance Graph</u>  | 24   |
| <u>Principal Stockholders</u>   | 25   |
| <u>Section 16(a) Beneficial Ownership Reporting Compliance</u>  | 27   |
| <u>VI. OTHER MATTERS</u>  | 27   |
| <u>Solicitation of Proxies</u>  | 27   |
| <u>Stockholder Proposals for Annual Meetings</u>  | 28   |

**AvalonBay Communities, Inc.**

2900 Eisenhower Avenue, Suite 300  
Alexandria, Virginia 22314

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**PROXY STATEMENT**

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**FOR 2006 ANNUAL MEETING OF STOCKHOLDERS**

*To Be Held On May 17, 2006*

April 3, 2006

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of AvalonBay Communities, Inc., a Maryland corporation (the "Company"), for use at the 2006 Annual Meeting of Stockholders of the Company to be held on Wednesday, May 17, 2006 at 9:00 a.m. local time at The Mandarin Oriental Hotel, 222 Sansome Street, San Francisco CA 94104, and at any postponements or adjournments thereof (the "Annual Meeting"). At the Annual Meeting, stockholders will be asked to: (1) elect nine directors of the Company, (2) vote on ratifying the selection of Ernst & Young LLP as the Company's independent auditors for 2006, and (3) transact such other business as may be properly brought before the Annual Meeting.

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**I. GENERAL INFORMATION ABOUT 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 3, 2006. The Board of Directors has fixed the close of business on March 8, 2006 as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting (the "Record Date"). Only holders of record of the Company's common stock, par value \$.01 per share (the "Common Stock"), 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 74,306,384 shares of Common Stock outstanding and entitled to vote. Holders of Common Stock outstanding as of the close of business on the Record Date will be entitled to one vote at the Annual Meeting 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 vote 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 Annual 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 provided 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 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.

**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 Annual Meeting without further action will not cause your previously granted proxy to be revoked. 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 nominees for director of the Company named in this Proxy Statement and FOR the ratification of the Company's selection of Ernst & Young as its independent auditors for 2006. 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 the discretion of the proxy holders.

The Company's 2005 Annual Report to Stockholders, including financial statements for the fiscal year ended December 31, 2005, is being mailed to stockholders concurrently with this Proxy Statement. The Annual Report, however, is not part of the proxy solicitation material. **A copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company's website (www.avalonbay.com).**

## II. PROPOSALS

### PROPOSAL 1 ELECTION OF DIRECTORS

The Board of Directors consists of nine members. The Board has nominated for election each of the nine current directors. Accordingly, nine nominees will stand for election at the Annual Meeting and if elected will serve until the 2007 Annual Meeting of Stockholders and until their successors are elected and qualify. The following individuals have been nominated by the Board of Directors to serve as directors: Bryce Blair, Bruce A. Choate, John J. Healy, Jr., Gilbert M. Meyer, Timothy J. Naughton, Lance R. Primis, H. Jay Sarles, Allan D. Schuster 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 serve or for good cause will not serve, the proxies will be voted for the election of such other person as the Board of Directors may recommend.

#### Required Vote and Recommendation

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted for all of the Nominees unless contrary instructions are set forth on the enclosed Proxy Card. The affirmative vote of the holders of a majority of all outstanding

shares of Common Stock is required to elect a Nominee. Accordingly, a vote withheld from a Nominee (i.e., an abstention) will have the same effect as a vote against the Nominee. Because there are only nine Nominees for nine Board positions, if a Nominee who is currently a director fails to receive the affirmative vote of the holders of a majority of all outstanding shares of Common Stock, then the Nominee will remain a director until such director's successor is duly elected and qualifies.

*The Board of Directors unanimously recommends a vote FOR all of the Nominees.*

### Information Regarding Nominees

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.

Unless otherwise specified, the following information is as of February 1, 2006 and is based upon 73,998,786 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) | Percent of Class |
|---------------------|-----|----------------|---|------------------|
| Bryce Blair         | 47  | 2001           | 466,157 (2)   | *                |
| Bruce A. Choate     | 58  | 1994           | 55,302 (3)  | *                |
| John J. Healy, Jr.  | 59  | 1996           | 18,272 (4)  | *                |
| Gilbert M. Meyer    | 61  | 1978           | 1,442,982 (5)   | 1.94 %           |
| Timothy J. Naughton | 44  | 2005           | 255,425 (6)   | *                |
| Lance R. Primis     | 59  | 1998           | 9,216   | *                |
| H. Jay Sarles       | 60  | 2005           | 2,998   | *                |
| Allan D. Schuster   | 64  | 1998           | 24,869 (7)  | *                |
| Amy P. Williams     | 49  | 2001           | 6,316   | *                |

\* 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) 290,805 shares issuable upon the exercise of stock options that vest on or before April 1, 2006 and (ii) 425 shares held indirectly for minor children.

(3) Includes (i) 25,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2006, and (ii) 23,802 shares issuable in the future under deferred stock awards granted to Mr. Choate in lieu of restricted stock awards pursuant to elections under the Company's 1994 Stock Incentive Plan, as amended and restated (the "Stock Incentive Plan").

(4) Includes 18,272 shares issuable in the future under deferred stock awards granted to Mr. Healy in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.

(5) Includes (i) 342,400 shares issuable upon the exercise of stock options that vest on or before April 1, 2006, (ii) 1,056,565 shares owned jointly with spouse, (iii) 42,667 shares issuable in the future under deferred stock awards granted to Mr. Meyer in lieu of restricted stock awards pursuant to elections made under the Stock Incentive Plan, and (iv) 1,350 shares owned by the Gilbert M. and Carol M. Meyer Foundation for which Mr. Meyer disclaims beneficial ownership.

(6) Includes 179,070 shares issuable upon the exercise of stock options that vest on or before April 1, 2006.

(7) Includes 13,311 shares issuable in the future under deferred stock awards granted to Mr. Schuster in lieu of restricted stock awards pursuant to elections made under the Stock Incentive Plan.

3

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The following biographical descriptions set forth information with respect to the Nominees for election as directors, based on information furnished to the Company by each Nominee. There is no family relationship between any director, Nominee, or executive officer of the Company.

*Employee Directors:*

*Bryce Blair* has been a director of the Company since May 2001. Mr. Blair has also served as the Company's Chairman of the Board since January 1, 2002, Chief Executive Officer since February 1, 2001 and President from September 2000 through February 23, 2005. Mr. Blair was 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 of the Company and Avalon Properties, Inc. (Avalon Properties) in June 1998 (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 Trammell Crow Residential (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. 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 Young Presidents Organization (YPO), and the National Association of Real Estate Investment Trusts (NAREIT), where he is on the Board of Governors. Mr. Blair is a member of the Board of Directors of CarrAmerica Realty Corporation.

*Timothy J. Naughton*, has been a director of the Company since September 2005 and has been President since February 23, 2005. Previously, Mr. Naughton served as Chief Operating Officer since February 2001. Mr. Naughton has direct oversight of development, construction and investments, and plays an instrumental leadership role in other aspects of the Company's business as well. Prior to assuming the Chief Operating Officer role, Mr. Naughton served as Senior Vice President Chief Investment Officer since January 2000, overseeing the Company's investment strategy for real estate and non-real estate related investments. Prior to becoming the Chief Investment Officer, Mr. Naughton served as the Company's Regional Vice President Development and Acquisitions, with responsibility primarily in the Mid-Atlantic and Midwest regions of the country. Mr. Naughton has been with the Company or its predecessors since 1989. Mr. Naughton is a member of the Real Estate Round Table, the Multifamily Council of the Urban Land Institute (ULI) and a member of the National Multi-Housing Council (NMHC), where he serves on the Executive Committee. Mr. Naughton received his Masters of Business Administration from Harvard Business School in 1987 and earned his undergraduate degree in Economics with High Distinction from the University of Virginia, where he was elected to Phi Beta Kappa.

*Non-Employee Directors:*

*Bruce A. Choate* has been a director of the Company since April 1994. In December, 2002, Mr. Choate was elected to the Board of Directors of Watson Land Company, a privately-held real estate investment trust (REIT) in Carson, California. At that time, Mr. Choate was also appointed as its President and Chief Executive Officer. Prior to December 2002, Mr. Choate had served since 1991 as Watson Land Company's Chief Financial Officer. 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 various management positions with national banking and mortgage banking organizations. He holds membership in the ULI, NAREIT, the Real Estate Investment Advisory Council, The Real Estate Round Table, and the National Association of Industrial and Office Property, and he serves on the Board of Directors of the Los Angeles Area Chamber of Commerce and is a charter member of the Southern California Leadership 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., an investor in real estate and real estate related entities. 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 boards of AMB Alliance Fund III (Independent Council) and The Rosalind Russell Research Center for Arthritis (UCSF). Memberships in professional associations include: ULI (Affordable Housing Council), American Society of Real Estate Counselors (CRE), and American Institute of Real Estate Appraisers (MAI).

*Gilbert M. Meyer* has been a director of the Company since 1978. Mr. 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 in May 2000. 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 President of Greenbriar Homes Communities, Inc., a private for-sale, single-family home building company in Northern California, and is a major stockholder in that company and indirectly owns significant interests in its limited liability company affiliates. He is also a member of the Haas School of Business Advisory Board, University of California at Berkeley, a member of the Policy Advisory Board of the Fisher Center for Real Estate and Urban Economics, University of California at Berkeley, and a member of the boards of various philanthropic non-profit organizations.

*Lance R. Primis* has been a director of the Company since June 1998. Effective January 1, 2003, Mr. Primis was designated the Lead Independent Director of the Company (see Board of Directors and its Committees' Lead Independent Director). 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. In addition, Mr. Primis is a member of the Board of Directors of Torstar Corporation and Plum Holdings, LLC.

*H. Jay Sarles* has been a director of the Company since September 2005. Mr. Sarles is a private investor and senior advisor to Nautic Partners, a private equity company that manages \$1.5 billion in assets. Mr. Sarles retired as Vice Chairman of Bank of America in March 2005. Prior to joining Bank of America in 2004, Mr. Sarles served in a variety of executive positions with FleetBoston Financial Corporation and its predecessors, including Vice Chairman and Chief Administrative Officer from December 2002 and Vice Chairman, Wholesale Banking prior to that. Mr. Sarles is a director of Ameriprise Financial, Inc., Dental Service of Massachusetts and DentaQuest Ventures, Inc. and a trustee of Mount Holyoke College. Mr. Sarles has agreed to serve as a director of MBNA Europe Bank Ltd., an indirect subsidiary of Bank of America Corporation.

*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 this same period, Mr. Schuster was Chairman and Chief Executive Officer of Prospect Company, a 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 Institute and the ULI.*

*Amy P. Williams* has been a director of the Company since May 2001. Ms. Williams is a private investor and, until May 2005, was Vice President, Finance & Planning, of Allstate Insurance Company, the largest publicly-traded personal lines insurer in the United States. Prior to assuming that office, 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.

## **PROPOSAL 2**

### **RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC AUDITORS**

The Board recommends that the stockholders ratify the Audit Committee's selection of Ernst & Young LLP (Ernst & Young) as the principal independent auditors of the Company for fiscal year 2006. Ernst & Young was also the Company's principal independent auditors for fiscal year 2005. If the selection of Ernst & Young is not ratified, the Audit Committee anticipates that it will nevertheless engage Ernst & Young as auditors for fiscal year 2006, but will consider whether it should select other auditors for fiscal year 2007. If the selection of Ernst & Young is ratified by the stockholders, the Audit Committee may nevertheless determine, based on changes in fees, personnel or for other reasons, to engage a firm other than Ernst & Young for the 2006 audit.

Representatives of Ernst & Young are expected to be present at the Annual Meeting by means of audible telephone conferencing and will have the opportunity to make a statement if they desire to do so. They are also expected to be available by similar means to respond to appropriate questions.

#### **Required Vote and Recommendation**

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted for ratifying the selection of Ernst & Young as the Company's independent auditors for fiscal year 2006 unless contrary instructions are set forth on the enclosed Proxy Card. A majority of the votes cast at the Annual Meeting is required to ratify the selection of Ernst & Young. Accordingly, an abstention will have no effect on the outcome of the vote.

*The Board of Directors unanimously recommends a vote FOR the ratification of the selection of Ernst & Young as the Company's independent auditors for fiscal year 2006.*

## **OTHER MATTERS**

The Board of Directors does not know of any matters other than those described in this Proxy Statement which will be presented for action at the Annual Meeting. If other matters are presented, proxies will be voted in the discretion of the proxy holders.

**Regardless of the number of shares you own, your vote is important to the Company. Please complete, sign, date and promptly return the enclosed proxy card or authorize a proxy by telephone or over the Internet to vote your shares by following the instructions on your proxy card.**

### III. CORPORATE GOVERNANCE AND RELATED MATTERS

#### Code of Ethics and Corporate Governance Guidelines

The Company has adopted a Code of Conduct, which constitutes a code of ethics as defined by the SEC, that applies to the Company's Board of Directors as well as its Chief Executive Officer, Chief Financial Officer, principal accounting officer, controller, and other employees of the Company. In addition, the Company has adopted Corporate Governance Guidelines. A copy of the Code of Conduct and the Corporate Governance Guidelines may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)). To the extent required by the rules of the SEC and the New York Stock Exchange ( NYSE ), we will disclose amendments and waivers relating to these documents in the same place on our website.

#### Board of Directors and its Committees

*Board of Directors.* The Board of Directors consists of nine directors. The Board of Directors met five times during 2005. The Board of Directors schedules regular executive sessions at each of its meetings, in which the Company's non-employee directors meet without management participation. In addition, at least once each year the Company's independent directors meet without non-independent director participation. 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. The Board expects all directors to attend annual meetings of stockholders, and all directors were in attendance at the 2005 Annual Meeting of Stockholders.

*Audit Committee.* The Board of Directors has established an Audit Committee. The current members of this committee are Messrs. Choate (Chair), Schuster, and Sarles and Ms. Williams. The Board of Directors has determined that Mr. Choate is an audit committee financial expert as defined by the SEC and the NYSE. Mr. Choate's designation by the Board as an audit committee financial expert is not intended to be a representation that he is an expert for any purpose as a result of such designation, nor is it intended to impose on him any duties, obligations or liability that are greater than the duties, obligations or liability imposed on him as a member of the Audit Committee and the Board in the absence of such designation. The Board of Directors has determined that the members of the Audit Committee, including the audit committee financial expert, are independent under the rules of the SEC and the NYSE. The Audit Committee, among other functions, has the sole authority to appoint and replace the independent auditors, is responsible for the compensation and oversight of the work of the independent auditors, reviews the results of the audit engagement with the independent auditors, and reviews and discusses with management and the independent auditors quarterly and annual financial statements and major changes in accounting and auditing principles. The Audit Committee met nine times during 2005. The Board of Directors has adopted a written charter for the Audit Committee. A copy of the Audit Committee charter may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)).

*Compensation Committee.* The Board of Directors has established a Compensation Committee. The current members of this committee are Ms. Williams (Chair) and Messrs. Healy and Sarles. The Board of Directors has determined that the members of the Compensation Committee are independent under the rules of the NYSE. The Compensation Committee, among other functions, reviews, designs and determines compensation structures, programs and amounts, establishes corporate and management performance goals and objectives, and administers the Company's incentive compensation plans, including the Company's Stock Incentive Plan. The Compensation Committee also reviews employment agreements and arrangements with officers. The Compensation Committee met three times during 2005. The Board of



Directors has adopted a written charter for the Compensation Committee. A copy of the Compensation Committee charter may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)).

*Nominating and Corporate Governance Committee.* The Board of Directors has established a Nominating and Corporate Governance Committee (the Nominating Committee). The current members of this committee are Messrs. Schuster (Chair) and Primis. The Board of Directors has determined that the members of the Nominating and Corporate Governance Committee are independent under the rules of the NYSE. The Nominating Committee was formed to, among other functions, identify individuals qualified to become Board members, consider policies relating to Board and committee meetings, recommend the establishment or dissolution of Board committees and address other issues regarding corporate governance. The Nominating and Corporate Governance Committee met nine times during 2005. The Board of Directors has adopted a written charter for the Nominating and Corporate Governance Committee. A copy of the Nominating and Corporate Governance Committee charter may be obtained free of charge by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer or by accessing the Investor Relations section of the Company's web site ([www.avalonbay.com](http://www.avalonbay.com)).

In evaluating and determining whether to recommend a person as a candidate for election as a director, the Nominating Committee considers the qualifications set forth in the Company's corporate governance guidelines, which include business and professional background; history of leadership or contributions to other organizations; function skill set and expertise; general understanding of marketing, finance, accounting and other elements relevant to the success of a publicly-traded company in today's business environment; and service on other boards of directors. The Nominating Committee may employ a variety of methods for identifying and evaluating nominees for director. The Nominating Committee may assess the size of the Board, the need for particular expertise on the Board, the upcoming election cycle of the Board and whether any vacancies are expected, due to retirement or otherwise. In the event that vacancies are anticipated or otherwise arise, the Nominating Committee will consider various potential candidates for director which may come to the Nominating Committee's attention through current Board members, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating Committee, and may be considered at any time during the year.

*In exercising its function of recommending individuals for nomination by the Board for 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 Matters Stockholder Proposals for Annual Meetings for a summary of these requirements. When nominations are properly submitted, the Nominating Committee will consider candidates recommended by stockholders under the criteria summarized above. Following verification of the stockholder status of persons proposing candidates, the Nominating Committee makes an initial analysis of the qualifications of any candidate recommended by stockholders or others pursuant to the criteria summarized above to determine whether the candidate is qualified for service on the Company's Board of Directors before deciding to undertake a complete evaluation of the candidate. If any materials are provided by a stockholder or professional search firm in connection with the nomination of a director candidate, such materials are forwarded to the Nominating Committee as part of its review. The same identifying and evaluating procedures apply to all candidates for director nomination, including candidates submitted by stockholders.*

*If you would like the Nominating Committee to consider a prospective candidate, please submit the candidate's name and qualifications and other information in accordance with the requirements for*



*director nominations by stockholders in the Company's Bylaws to: AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Corporate Secretary.*

*Investment and Finance Committee.* The Board of Directors has established an Investment and Finance Committee. The current members of this committee are Messrs. Healy (Chair), Blair, Choate, Meyer, Schuster, Naughton and Primis. The Investment and Finance Committee was formed to, among other things, review and monitor the acquisition, disposition, development and redevelopment of the Company's communities, and review and monitor the financial structure, capital sourcing strategy and financial plans and projections of the Company. The Investment and Finance Committee has authority, subject to certain limits and guidelines set by the Board of Directors and Maryland law, to approve investment and financing activity. The Investment and Finance Committee met ten times during 2005.

*Lead Independent Director.* To help assure sound corporate governance practices, the Board of Directors established the position of Lead Independent Director and Mr. Primis currently serves in that role. Mr. Primis' role as Lead Independent Director includes chairing meetings of the non-employee and independent directors; helping to encourage and facilitate communications among the non-employee directors, the Chairman and management; facilitating communications among committees of the Board of Directors; and acting as a contact person for those who wish to communicate with the independent directors.

*Independence of the Board.* The NYSE has adopted independence standards for companies listed on the NYSE, including the Company. These standards require a majority of the Board of Directors to be independent and every member of the Audit Committee, Compensation Committee and Nominating Committee to be independent. A director is considered independent only if the Board of Directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, the NYSE provides that:

- A director who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship;
- A director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$100,000 per year in such compensation;
- A director is not independent if (A) the director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time;
- A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serve on that company's compensation committee is not independent until three years after the end of such service or the employment relationship;
- A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in a single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues, is not independent until three years after falling below such threshold.



To determine which of its members is independent, the Board of Directors used the above standards and also considered whether a director had any other past or present relationships with the Company which created conflicts or the appearance of conflicts. Based on this review, the Board determined that all current directors are independent because none of them has any past or present material relationships with the Company that creates a conflict or the appearance of a conflict, except for (i) Mr. Blair, who currently serves as the Company's Chief Executive Officer, (ii) Mr. Naughton, who currently serves as the Company's President, and (iii) Mr. Meyer, who was the founder and former Chairman and Chief Executive Officer of the Company.

### **Contacting the Board**

You may contact any of our directors, including the Lead Independent Director or our independent directors as a group, by writing to them c/o AvalonBay Communities, Inc., 2900 Eisenhower Ave., Suite 300, Alexandria, VA 22314, Attention: Corporate Secretary. Your letter should clearly specify the name of the individual director or group of directors to whom your letter is addressed. Any communications received in this manner will be forwarded as addressed.

### **Director Compensation**

A director of the Company who is also an employee receives no additional compensation for his services as a director.

In accordance with the Stock Incentive Plan, on the fifth business day following each annual meeting of stockholders, each of the Company's non-employee directors automatically receives a grant of a number of shares of restricted stock (or a deferred stock award in lieu thereof) equal to \$100,000 based on the last reported sale price of the Common Stock as reported by the NYSE on the date five business days after the previous year's annual meeting of stockholders. Based on this formula, following the 2005 Annual Meeting, each non-employee director received a restricted stock or deferred stock grant of 1,998 shares of Common Stock and following the 2006 Annual Meeting, each non-employee director will receive a restricted stock or deferred stock grant of 1,327 shares of Common Stock. In February 2006, the Board amended the Stock Incentive Plan so that the number of shares granted to non-employee directors following each Annual Meeting, beginning with the 2007 Annual Meeting, will equal \$100,000 divided by the closing price of Common Stock as reported by the NYSE on the grant date. Subject to accelerated vesting under limited circumstances (including termination of service for any reason other than for Cause, death or disability of the director or a change of control as defined in the Stock Incentive Plan), all of such shares of restricted stock (or deferred stock awards) granted to non-employee directors 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 elected to receive a deferred stock award in lieu of restricted stock, then the director will receive shares of stock in respect of the vested portion of the deferred stock award within 30 days following termination of service as a director of the Company. In addition, during 2005, and through March 31, 2006, non-employee directors receive an annual payment of \$30,000 per year, payable in quarterly installments of \$7,500. In February 2006 the Board of Directors increased this payment to \$40,000 per year (payable in quarterly installments of \$10,000), beginning with the first quarterly payment following the 2006 Annual Meeting. A non-employee director may elect to receive all or a portion of such cash payment in the form of a deferred stock award.

In consideration for serving as Lead Independent Director, Mr. Primis currently receives, in addition to the compensation described above, an annual fee of \$30,000 payable in equal monthly installments of \$2,500.

### **Report of the Audit Committee**

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

internal controls, and for the preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles. The Company's independent auditors, and not the Audit Committee, are responsible for auditing and expressing an opinion on the conformity of the Company's audited financial statements to generally accepted accounting principles.

In this context, during 2005, 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 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 of Directors 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, 2005, for filing with the SEC.

*Submitted by the Audit Committee*

Bruce A. Choate (Chair)  
H. Jay Sarles  
Allan D. Schuster  
Amy P. Williams

#### **Fiscal 2004 and 2005 Audit Fee Summary**

During fiscal years 2004 and 2005, the Company retained its principal independent auditors, Ernst & Young, to provide services in the following categories and approximate amounts:

|                        | <b>2004</b> | <b>2005</b> |
|------------------------|-------------|-------------|
| Audit fees             | \$ 692,000  | \$ 718,000  |
| Audit related fees (1) | \$ 142,000  | \$ 249,000  |
| Tax fees (2)           | \$ 145,000  | \$ 223,000  |
| All other fees         | \$ 0        | \$ 0        |

(1) Audit related fees include fees for services traditionally performed by the auditor such as subsidiary audits, employee benefit audits, and accounting consultation.

(2) Tax fees include preparation and review of subsidiary tax returns and taxation advice.

#### **Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

*The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.*

#### **Certain Relationships and Related Transactions**

*Indebtedness of Management.*

Since January 1, 2005, no executive officer or director of the Company has had any outstanding loan payable to or other indebtedness owed to the Company.



#### IV. EXECUTIVE COMPENSATION AND OTHER INFORMATION

##### Executive Compensation

The following table sets forth, for each of the Company's last three fiscal years, the annual compensation awarded to (a) the person who served as the Company's chief executive officer during 2005 and (b) 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 other than the chief executive officer during 2005 (collectively, the Named Executive Officers).

##### Summary Compensation Table

| Name and Principal Position                           | Year | Annual Compensation |            | Long-Term Compensation Awards     | Restricted Stock Awards\$(3) | All Other Compensation \$(4)(5)(6) |
|---|------|---------------------|------------|-----------------------------------|------------------------------|------------------------------------|
|   |      | Salary(\$)          | Bonus\$(1) | Securities Underlying Options#(2) |                              |                                    |
| Bryce Blair   | 2005 | 716,827             | 1,099,075  | 189,264                           | 1,875,125                    | (7) 119,311                        |
| Chairman and Chief Executive Officer                  | 2004 | 647,089             | 971,805    | 146,005                           | 1,662,362                    | (8) 148,000                        |
| Timothy J. Naughton                                   | 2003 | 561,467             | 585,329    | 104,312                           | 1,004,005                    | (9) 148,448                        |
| President   | 2005 | 429,504             | 592,687    | 112,680                           | 1,073,795                    | (10) 53,653                        |
|   | 2004 | 397,936             | 528,439    | 72,122                            | 818,835                      | (11) 85,404                        |
|   | 2003 | 370,549             | 343,499    | 56,246                            | 619,850                      | (12) 85,541                        |
| Thomas J. Sargeant                                    | 2005 | 398,066             | 544,823    | 91,722                            | 890,764                      | (13) 90,817                        |
| Executive Vice President, and Chief Financial Officer | 2004 | 378,769             | 507,247    | 63,437                            | 783,160                      | (14) 90,270                        |
|   | 2003 | 349,983             | 320,497    | 45,202                            | 441,232                      | (15) 90,799                        |
| Leo S. Horey  | 2005 | 324,401             | 344,125    | 43,328                            | 451,628                      | (16) 34,489                        |
| Executive Vice President                              | 2004 | 298,475             | 305,794    | 40,317                            | 470,064                      | (17) 41,052                        |
| Operations  | 2003 | 290,425             | 180,731    | 33,576                            | 330,114                      | (18) 41,428                        |
| Lili F. Dunn,   | 2005 | 264,739             | 260,056    | 19,838                            | 211,388                      | (19) 6,300                         |
| Senior Vice President                                 | 2004 | 242,224             | 240,056    | 15,429                            | 240,068                      | (20) 5,594                         |
| Investments   | 2003 | 209,036             | 192,710    | 15,290                            | 151,395                      | (21) 6,000                         |

(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 2005, 2004 and 2003 consist of options granted on February 9, 2006, February 11, 2005 and February 12, 2004, respectively.

(3) With respect to all shares of restricted stock described in this table and in footnotes (7) through (21), except as may otherwise be noted, 20% of the shares vested on March 1 in the year of issuance and the remaining 80% of the shares vest in four equal annual installments on the anniversaries of that date, subject to accelerated vesting (in the case of termination of employment without cause, death or disability, or a change in control of the Company (as defined in the Stock Incentive Plan)) or forfeiture of unvested shares (in the case of termination of employment for any other reason). Dividends are payable on the shares. As of December 30, 2005, the total holdings of restricted stock (i.e., shares still subject to vesting) of the Named Executive Officers and the market value of such holdings (based on the last reported sale price of the Common Stock on the NYSE on such date of \$89.25) were as follows:

Mr. Blair 35,982 shares (\$3,211,393.50); Mr. Naughton 20,145 shares

(\$1,797,941.25); Mr. Sargeant 17,936 shares (\$1,600,788); Mr. Horey 12,416 shares (\$1,108,128); and Ms. Dunn 6,270 shares (\$559,597.50).

(4) For 2005, includes (i) amounts contributed by the Company to the Named Executive Officers 401(k) accounts in the following amounts: Mr. Blair \$6,300; Mr. Naughton \$6,300; Mr. Sargeant \$6,300; Mr. Horey \$6,300; and Ms. Dunn \$6,300; (ii) premiums paid by the Company in February 2005 for Company-owned life insurance policies on the lives of certain of the Named Executive Officers for which the Company has endorsed the respective policies so that any death benefit, in excess of the cumulative premiums paid by the Company, will be paid to the beneficiaries of the deceased, which premiums were in the following amounts for each officer (such amounts representing payment of a whole-life premium which builds cash value in the Company-owned policy to support future repayment of the cumulative premiums; see Employment Agreements and Severance Arrangements Endorsement Split Dollar Agreements ): Mr. Blair \$106,493; Mr. Naughton \$43,722; Mr. Sargeant \$80,832; and Mr. Horey \$28,189; and (iii) premiums paid by the Company in 2005 for certain officers supplemental disability insurance in the following amounts: Mr. Blair \$6,518; Mr. Naughton \$3,631; and Mr. Sargeant \$3,685.

(5) For 2004, includes (i) amounts contributed by the Company to the Named Executive Officers 401(k) accounts in the following amounts: Mr. Blair \$5,651; Mr. Naughton \$5,651; Mr. Sargeant \$5,651; Mr. Horey \$5,651; and Ms. Dunn \$5,594; (ii) premiums paid by the Company in February 2004 for Company-owned life insurance policies on the lives of certain of the Named Executive Officers, as explained in footnote 4 above, in the following amounts: Mr. Blair \$135,638; Mr. Naughton \$76,180; Mr. Sargeant \$80,908; and Mr. Horey \$35,401; and (iii) premiums paid by the Company in 2004 for certain officers supplemental disability insurance in the following amounts: Mr. Blair \$6,711; Mr. Naughton \$3,573; and Mr. Sargeant \$3,711.

(6) For 2003, includes (i) amounts contributed by the Company to the Named Executive Officers 401(k) accounts in the following amounts: Mr. Blair \$6,000; Mr. Naughton \$6,000; Mr. Sargeant \$6,000; Mr. Horey \$6,000; and Ms. Dunn \$6,000; (ii) premiums paid by the Company in February 2003 for Company-owned life insurance policies on the lives of certain of the Named Executive Officers, as explained in footnote 4 above, in the following amounts: Mr. Blair \$135,711; Mr. Naughton \$76,240; Mr. Sargeant \$80,968; and Mr. Horey \$35,428; and (iii) premiums paid by the Company in 2003 for certain officers supplemental disability insurance in the following amounts: Mr. Blair \$6,737; Mr. Naughton \$3,301; and Mr. Sargeant \$3,831.

(7) Consists of 18,912 shares of restricted stock awarded as of February 9, 2006, valued at \$99.15 per share.

(8) Consists of 23,765 shares of restricted stock awarded as of February 11, 2005, valued at \$69.95 per share.

(9) Consists of 19,842 shares of restricted stock awarded as of February 12, 2004, valued at \$50.60 per share.

(10) Consists of 10,830 shares of restricted stock awarded as of February 9, 2006, valued at \$99.15 per share.

(11) Consists of 11,706 shares of restricted stock awarded as of February 11, 2005, valued at \$69.95 per share.

(12) Consists of 12,250 shares of restricted stock awarded as of February 12, 2004, valued at \$50.60 per share.

(13) Consists of 8,984 shares of restricted stock awarded as of February 9, 2006, valued at \$99.15 per share.

- (14) Consists of 11,196 shares of restricted stock awarded as of February 11, 2005, valued at \$69.95 per share.
- (15) Consists of 8,720 shares of restricted stock awarded as of February 12, 2004, valued at \$50.60 per share.
- (16) Consists of 4,555 shares of restricted stock awarded as of February 9, 2006, valued at \$99.15 per share.
- (17) Consists of 6,720 shares of restricted stock awarded as of February 11, 2005, valued at \$69.95 per share.
- (18) Consists of 6,524 shares of restricted stock awarded as of February 12, 2004, valued at \$50.60 per share.
- (19) Consists of 2,132 shares of restricted stock awarded as of February 9, 2006, valued at \$99.15 per share.
- (20) Consists of 3,432 shares of restricted stock awarded as of February 11, 2005, valued at \$69.95 per share.
- (21) Consists of 2,992 shares of restricted stock awarded as of February 12, 2004, valued at \$50.60 per share.

#### Option Grants with respect to Fiscal Year 2005

The following table sets forth the options to purchase Common Stock granted with respect to the fiscal year ended December 31, 2005 to the Company's Named Executive Officers.

| Name                | Number of Shares Underlying Options Granted (#)(1)(2) | Percent of Total Options Granted to Employees for Fiscal Year 2005 | Exercise Price (\$/Sh) | Grant Date | Expiration Date | Grant Date Present Value \$(3) |
|---------------------|---|--|------------------------|------------|-----------------|--------------------------------|
| Bryce Blair         | 189,264   | 22.17 %  | 99.15                  | 2/09/06    | 2/09/16         | \$ 2,161,395                   |
| Timothy J. Naughton | 112,680   | 13.20 %  | 99.15                  | 2/09/06    | 2/09/16         | \$ 1,286,806                   |
| Thomas J. Sargeant  | 91,722  | 10.75 %  | 99.15                  | 2/09/06    | 2/09/16         | \$ 1,047,465                   |
| Leo S. Horey        | 43,328  | 5.08 %   | 99.15                  | 2/09/06    | 2/09/16         | \$ 494,806                     |
| Lili F. Dunn        | 19,838  | 2.32 %   | 99.15                  | 2/09/06    | 2/09/16         | \$ 226,550                     |

(1) This chart excludes options granted on February 11, 2005 with respect to the fiscal year ended December 31, 2004, including the following amounts for the Named Executive Officers: Mr. Blair 146,005; Mr. Naughton 72,122; Mr. Sargeant 63,437; Mr. Horey 40,317; and Ms. Dunn 15,429. Those grants (other than the grant for Ms. Dunn, who was not a Named Executive Officer for 2004) were disclosed in the Company's Proxy Statement relating to its 2005 Annual Meeting of Stockholders.

(2) A total of 853,613 options to purchase Common Stock were granted to employees of the Company with respect to the fiscal year ended December 31, 2005 including the options listed which were granted on the dates indicated. These options become exercisable in three equal installments on the first, second and third anniversaries of the date of grant. The Stock Incentive Plan and the Company's standard form of option agreement provides that all options will be forfeited upon a termination for cause and all options will vest upon termination for retirement as defined in the Plan, in which case the remaining term of the option will be 12 months or, if earlier, the expiration of the original ten year term of the option. In addition, in the event of a termination for any of the following reasons, unvested options shall terminate and (subject to expiration of the original ten year term of the option) the individual will have the following time within which to exercise vested options: (i) six months





following a termination of employment in the case of death; (ii) twelve months following a termination of employment due to disability; and (iii) three months following a termination for any other reason. The options provide for immediate vesting upon a change in control of the Company. The employment agreements for Messrs. Blair, Naughton, Sargeant and Horey provide that options granted to them (i) shall be subject to accelerated vesting under certain circumstances as described in Employment Agreements and Severance Arrangements below, and (ii) shall, under certain circumstances, have exercise periods following a termination of employment that are nine to eighteen months longer than indicated above (e.g., an exercise period of one year, rather than three months, following a termination of employment without cause).

(3) For the February 9, 2006 grants, the value is calculated using the Black-Scholes model with the following material assumptions: dividend yield of 5.0%, volatility of 17.6%, risk-free interest rates of 4.6%, and an expected life of approximately 7 years. The actual realized value will depend on the difference between the market value of the common stock on the date the option is exercised and the exercise price.

### Option Exercises and Year-End Holdings

The following table sets forth the aggregate number of options to purchase Common Stock that were exercised in 2005 and the value of options held as of December 31, 2005 by the Company's Named Executive Officers.

#### Aggregated Option Exercises in Fiscal Year 2005 and Fiscal Year-End 2005 Option Values

| Name                | Shares Acquired on Exercise(#) | Value Realized(\$) | Number of Securities Underlying Unexercised Options at Fiscal Year-End |   | Value of Unexercised in-the-Money Options at Fiscal Year-End |            |   |           |
|---------------------|--------------------------------|--------------------|--|---|--|------------|---|-----------|
|                     |                                |                    | Exercisable/Unexercisable(#)   |   | Exercisable/Unexercisable(\$)(1)                             |            |   |           |
| Bryce Blair         | 100,153                        | 4,114,046          | 248,366  | / | 224,547  | 11,667,070 | / | 5,984,765 |
| Timothy J. Naughton | 59,100                         | 2,964,911          | 128,281  | / | 117,620  | 5,770,166  | / | 3,267,092 |
| Thomas J. Sargeant  | 106,549                        | 4,163,814          | 37,121   | / | 101,789  | 1,543,402  | / | 2,807,241 |
| Leo S. Horey        | 29,676                         | 1,110,549          | 24,006   | / | 69,108   | 1,114,660  | / | 1,984,304 |
| Lili F. Dunn        | 35,610                         | 1,292,203          | 43,398   | / | 27,884   | 2,038,513  | / | 812,131   |

(1) Based on the last reported sale price of the Company's Common Stock on the NYSE on December 30, 2005 of \$89.25 per share.

### Executive and Senior Officers

The following biographical descriptions set forth information with respect to the executive and senior officers of the Company, based on information furnished to the Company by each 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 meeting of stockholders and until his or her successor is duly elected and qualifies or until his or her earlier death, resignation or removal in the manner provided in the Company's Bylaws.

The Company's Board of Directors has determined that Messrs. Blair, Naughton, Sargeant, Horey, Morris and Schulman, and Mmes. Rothkopf and Dunn are executive officers of the Company within the meaning of Rules 3b-7 and 16a-1(f) of the Securities Exchange Act of 1934, as amended (the Exchange Act).

*Bryce Blair, 47*, has been a director of the Company since May 2001. Mr. Blair has also served as the Company's Chairman of the Board since January 1, 2002, Chief Executive Officer since February 1, 2001 and President from September 2000 through February 23, 2005. Mr. Blair was 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. 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 YPO, and NAREIT, where he is on the Board of Governors. Mr. Blair is a member of the Board of Directors of CarrAmerica Realty Corporation.

*Timothy J. Naughton, 44*, has been a director of the Company since September 2005. Mr. Naughton has also served as the Company's President since February 23, 2005. Previously, Mr. Naughton served as Chief Operating Officer since February 2001. Mr. Naughton has direct oversight of development, construction and investments, and plays an instrumental leadership role in other aspects of the Company's business as well. Prior to assuming the Chief Operating Officer role, Mr. Naughton served as Senior Vice President Chief Investment Officer since January 2000, overseeing the Company's investment strategy for real estate and non-real estate related investments. Prior to becoming the Chief Investment Officer, Mr. Naughton served as the Company's Regional Vice President Development and Acquisitions, with responsibility primarily in the Mid-Atlantic and Midwest regions of the country. Mr. Naughton has been with the Company or its predecessors since 1989. Mr. Naughton is a member of the Real Estate Round Table, the Multifamily Council of ULI and a member of NMHC, where he serves on the Executive Committee. Mr. Naughton received his Masters of Business Administration from Harvard Business School in 1987 and earned his undergraduate degree in Economics with High Distinction from the University of Virginia, where he was elected to Phi Beta Kappa.

*Thomas J. Sargeant, 47*, has been Chief Financial Officer 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. 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.

*Leo S. Horey, 43*, Executive Vice President Operations, is responsible for the management of all apartment communities for the Company. He has been Executive Vice President Operations since January 2004 and was Senior Vice President Property Operations from February 2001 through December 2003. Prior to assuming that office, Mr. Horey had served since the Merger as Regional Vice President Property Operations, primarily 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. Previously, Mr. Horey had worked for TCR since 1990, concentrating in acquisitions, dispositions and property management. 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.

*Lili F. Dunn, 37*, is the Company's Senior Vice President Investments and since the Merger has had responsibility for the Company's national acquisition, disposition and redevelopment activity as well as market research and portfolio management initiatives. Ms. Dunn is also the Managing Director of AvalonBay Value Added Fund, L.P., a discretionary institutional investment management fund formed by the Company in 2005. Prior to the Merger, Ms. Dunn had similar responsibilities for Avalon Properties. Previously, Ms. Dunn was the Director of Business Development for TCR. Ms. Dunn graduated with highest honors from the University of Michigan, where she earned a Bachelor of Business Administration. Ms. Dunn is also an Executive Member of the NMHC and Vice Chairman of the NMHC Finance Committee.

*Charlene Rothkopf, 54*, has been Executive Vice President Human Resources since January 2004 and joined the Company in March 2000 as Senior Vice President Human Resources. Ms. Rothkopf is responsible for all human resource activities within the Company, including compensation, benefits, payroll, employment, associate relations, associate communications, and training and development. 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.

*J. Richard Morris, 46*, is the Company's Senior Vice President Head of Construction and since February 23, 2005, has been the head of the Company's construction group. Prior to that he had oversight responsibility for construction of garden style apartment communities throughout the Company since 2003 and throughout the Mid-Atlantic, Midwest and Northeast Regions since 2000. Mr. Morris joined Avalon Properties in 1996 and prior to joining the Company worked for regional residential developers in the Mid-Atlantic area constructing numerous large residential communities. Mr. Morris graduated cum laude from West Virginia State University with a B.S. in Building Construction. He also completed graduate courses in Engineering Management at the West Virginia College of Graduate Studies. Mr. Morris is a member of the National Association of Home Builders, where he has served on subcommittees for Codes and Standards.

*Edward M. Schulman, 43*, is the Company's Senior Vice President General Counsel and Secretary. Mr. Schulman joined the Company in February 1999 and has served as General Counsel since that time. Prior to joining the Company, he was a corporate and securities partner at Goodwin Procter LLP. Mr. Schulman is a magna cum laude graduate of Harvard Law School and received his undergraduate degree in economics from Princeton University, where he graduated with high honors.

*David Bellman, 48*, is the Company's Senior Vice President Construction, with responsibility for Mid/High rise construction throughout all of the Company's markets. Mr. Bellman joined AvalonBay in 1998 and prior to that spent 16 years with Boston Properties. Mr. Bellman studied Engineering Administration at George Washington University and is a member of the New York City Builders Congress.

*Sean J. Breslin, 39*, is the Company's Senior Vice President Investments, with responsibility for the Company's West Coast investment activity, which includes acquisitions, dispositions, redevelopments and portfolio/asset management. Prior to joining the Company in 2002, Mr. Breslin was the Chief Operating Officer of CWS Capital Partners, where he was responsible for that company's operations and investment



*activity. He received his Bachelors Degree from California State University, Long Beach and his MBA from the University of Texas.*

*Jonathan B. Cox, 48, is the Company's Senior Vice President Development, with responsibility for all new development activity in the Mid-Atlantic and Midwest regions. Mr. Cox joined the Company in 2003 and has over 19 years of multifamily residential development experience, most recently as a Vice President with The Holladay Corporation. Mr. Cox graduated from Case Western Reserve University and has an M.B.A. from the Wharton School.*

*Frederick S. Harris, 54, is the Company's Senior Vice President Development. He directs the Company's development activities in New York City, Southern Westchester and Long Island. Prior to joining the Company in 1998, Mr. Harris was with The Trotwood Corporation. He received his A.B. from Williams College, his M.S. in Transportation, Planning and Engineering from Polytechnic Institute of New York, and his J.D. from NYU School of Law.*

*Dirk V. Herrman, 46, is the Company's Senior Vice President Chief Marketing Officer, with responsibility for all marketing and public relations functions within the Company. Prior to joining the Company in 1999, Mr. Herrman was Vice President of Brand Marketing at Fruit of the Loom. Mr. Herrman holds a B.S. degree from Northwestern University, where he also attended the Institute of Advanced Advertising Studies.*

*Joanne M. Lockridge, 47, is the Company's Senior Vice President Finance and is responsible for financial forecasting and budgeting, secured and unsecured financing activity, joint venture structuring and capital market execution and strategy. Ms. Lockridge has been with the Company since the Merger, and prior to that with Avalon Properties since its formation in 1993. She earned her Masters in Finance degree from Fairfield University and her undergraduate degree, magna cum laude, from St. Anselm College.*

*William M. McLaughlin, 41, is the Company's Senior Vice President Development, with responsibility for all of the Company's development activity in Connecticut, Massachusetts and New Jersey, as well as wood-frame development activity in Westchester, NY. He has been with the Company or its predecessors since 1994. Before joining the Company, Mr. McLaughlin was with Lincoln Property Company, where he was responsible for multifamily development and acquisitions in eastern New England. Mr. McLaughlin received his Bachelors Degree in Economics from Harvard College in 1986.*

*Lawrence A. Scott, 43, is the Company's Senior Vice President Development with responsibility for the Company's development activities throughout Southern California. Prior to joining the Company in 2001, Mr. Scott served as Vice President for Archstone Communities Trust and Lincoln Property Company. Mr. Scott is a licensed CPA and real estate broker, and received his Bachelors Degree in Accounting from California State University, Fullerton.*

*Sean P. Sullivan, 39, is the Company's Senior Vice President Property Operations and is responsible for the oversight of the Company's communities located throughout the Mid-West and the New York metropolitan area. He joined the Company in 2003, and prior to that was a Senior Director of Property Management with Tishman Speyer Properties. Mr. Sullivan earned a Bachelor of Arts from Iona College, and a Master of Science in Real Estate from New York University.*

*Bernard J. Ward, 41, is the Company's Senior Vice President Property Operations and has oversight responsibility for all West Coast property operations. He joined the Company in 1997 and prior to that was with New Plan Realty Trust. Mr. Ward received a liberal arts degree from the University of California at San Diego.*

*Stephen W. Wilson, 49, is the Company's Senior Vice President Development, with responsibility for all development and redevelopment activity on the West Coast including Northern and Southern California and the Pacific Northwest. Prior to joining the Company in 1998, Mr. Wilson was a Senior Vice*



*President and Chief Operating Officer for SU Development, Inc. of Bellevue, Washington and Senior Vice President of Continental Pacific, Inc. of Bellevue, Washington. Mr. Wilson received his B.A. in Business Administration (Accounting) from Washington State University. He is a member of ULI and The American Institute of Certified Public Accountants.*

### **Employment Agreements and Severance Arrangements**

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

*Employment Agreements.* The Company has entered into employment agreements with Messrs. Blair, Naughton, Sargeant and Horey. These agreements, including current renewal terms, expire on varying dates between November 2006 and June 2007, but provide for automatic one-year renewals (or two-year renewals in the case of Mr. Blair) thereafter, unless an advance notice of non-renewal is provided by either party to the other in advance of the expiration of the employment term. If there is a change in control of the Company (as defined in the employment agreements), the employment agreements will be automatically extended for three years from the date of the change in control. The employment agreements provide that, in general, for one year following termination by the Company for Cause (as defined in the employment agreements) 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 for any reason, the executive will not solicit for employment any of the employees of the Company.

The employment agreements provide that the officers' base salaries will be reviewed annually and may be adjusted upward, but may not be decreased. In addition, each employment agreement provides that, commencing at the close of each fiscal year, the Company shall review the performance of the executive and may provide the executive additional compensation in the form of a cash bonus and long-term equity incentives such as stock options and restricted stock grants.

The employment agreements generally provide for termination and severance benefits in the case of a termination without Cause, a non-renewal of the agreement by the Company, or a voluntary resignation by the executive that is due to a constructive termination without Cause (generally, (x) a change in control, (y) a material breach of the employment agreement or (z) a material change in the executive's employment circumstances by the Company). The employment agreements for Messrs. Blair and Sargeant provide that if the executive is terminated without Cause or voluntarily resigns after a constructive termination without Cause, or in the event of a termination due to disability, the executive will be entitled to the following severance benefits: (i) cash in an amount equal to three times (two times in the case of a termination due to disability) the average of the sum of the current year's and two preceding years' (A) base salary, plus (B) cash bonus earned, plus (C) the value of stock and equity-based compensation awards granted (the value of which is to be determined by the Compensation Committee) (such average is referred to as the executive's Covered Average Compensation); (ii) 36 months of medical and disability insurance benefits (24 months in the case of a termination due to disability); (iii) accelerated vesting of stock options and restricted stock awards; and (iv) continued payment of the whole-life portion of the premiums due on a life insurance policy in accordance with the terms of a split dollar agreement relating thereto (described below). The employment agreements with Messrs. Naughton and Horey provide for generally similar severance benefits, but the cash amounts and periods for which the Company will reimburse medical and disability benefits are in some cases less than provided by the employment agreements with Messrs. Blair and Sargeant. In the event that any severance payment paid to an officer is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the Code), the Company shall make an additional severance payment to the executive (a partial gross up payment) to compensate such officer for the excise tax incurred. The partial gross up payment would be an amount such that the net



amount retained by the officer, before accrual or payment of any Federal or state income taxes on the partial gross up payment but after accrual or payment of the excise tax on the partial gross up payment, is equal to the total excise tax on the severance payment.

In addition, if the Company elects not to renew the term of an employment agreement with Messrs. Blair or Sargeant, 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 medical and disability insurance benefits, (iii) accelerated vesting of stock options and restricted stock awards and (iv) continued payment of the whole-life portion of the premiums due on a life insurance policy in accordance with the terms of a split dollar agreement relating thereto (described below). In general, if the Company elects not to renew an employment agreement with Messrs. Naughton or Horey, then, upon the executive's termination of employment, the Company must provide the executive benefits that are comparable to those for Messrs. Blair and Sargeant, except that (i) accelerated vesting of equity awards and continued payment of life insurance premiums will only apply if the Company terminates the executive's employment during the two-year period following the non-renewal, and (ii) with respect to cash and medical and disability insurance benefits, Messrs. Naughton and Horey would only be entitled to: (a) one times the sum of the executive's base salary for the current year plus one times the average cash bonus earned in the current year and preceding two years and (b) 12 months of medical and disability insurance benefits.

*Other Severance Arrangements.* The Company's agreements with its directors and officers governing compensatory stock option and restricted stock awards provide for immediate vesting (and, in the case of stock options, immediate exercisability) if a change of control (as defined in these agreements) occurs. In addition, upon the retirement of an employee (as defined under the Stock Incentive Plan) (a) all of such employee's options shall automatically vest and (absent a specific agreement providing otherwise) shall be exercisable for one year thereafter and (b) all of such employee's restricted shares of stock shall automatically vest. Retirement of an employee under the Plan generally means the termination of employment, other than for cause, when the sum of the following equals or exceeds 70 years: (i) the number of full months of employment and other business relationships with the Company and any predecessor company and (ii) the employee's age on the date of termination. To qualify for retirement, the employee must also give six months prior written notice to the Company of his intention to retire and enter into a one year non-solicitation and non-competition agreement with the Company. Under this formula, Messrs. Blair, Naughton, Sargeant and Horey will become eligible for retirement in 2008, 2011, 2008 and 2012, respectively. The Company adopted an Officer Severance Program for the benefit of those officers of the Company who do not have employment agreements. Under the program, in the event an officer who is not otherwise covered by a severance arrangement is terminated (other than for cause) within two years of a change in control (as defined) of the Company, such officer will generally receive a cash lump sum payment equal to the sum of such officer's base salary and cash bonus, as well as accelerated vesting of stock options and restricted stock.

*Agreement with Mr. Meyer.* In connection with Mr. Meyer's retirement in May 2000 as Executive Chairman of the Company, the Company entered into a Mutual Release and Separation Agreement and a Retirement Agreement with Mr. Meyer. Pursuant to that agreement, the Company agreed to continue to pay the whole-life portion of the premiums on a life insurance policy on Mr. Meyer in accordance with the terms of a split dollar agreement relating thereto (described below).

*Endorsement Split Dollar Agreements.* The Company owns whole-life insurance policies with respect to Mr. Meyer, a director, as well as for Messrs. Blair, Naughton, Sargeant and Horey. The face amount of each policy is \$2,500,000 (for Messrs. Meyer and Blair), \$1,500,000 (for Messrs. Sargeant and Naughton) and \$750,000 (for Mr. Horey). The Company has endorsed each of these Company-owned policies such that in the event of the death of an insured the Company will be paid insurance proceeds equal to the cumulative premiums paid on the policy by the Company, with excess insurance proceeds being paid to the

insured's estate or named beneficiary. The Company has agreed (i) to pay the premiums due on each policy through 2017 (provided that the insured pays a portion of the premium equal to the current term rate for the insured's age multiplied by the insured's current interest in the policy), (ii) after the last Company payment, withdraw cash from the policy equal to the cumulative premiums paid and (iii) thereafter assign the policy to the insured. In the case of the insureds other than Mr. Meyer, the Company will cease making premium payments, and will withdraw the cumulative premiums and assign the policy, earlier than 2017 in the event of the insured's termination for cause or voluntary resignation without a constructive termination.

#### **Compensation Committee Report on Executive Compensation**

*Composition of Compensation Committee.* During 2005 and through the date of this proxy statement, the Compensation Committee consisted of Amy P. Williams (Chair), John J. Healy, Jr., Charles D. Peebler (through November 2005) and H. Jay Sarles (since September 2005). 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 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 annual awards under the Stock Incentive Plan. In recent years, and in setting compensation targets for 2005, the Compensation Committee's guiding principle has been that the compensation of the officer group should be targeted so that in a year when target performance is achieved the officer group'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 has served 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. In determining annual compensation targets consistent with this principle, the Committee has reviewed, in each of the last several years, including 2005, data provided by a third-party compensation consultant regarding compensation of various executives and other officers at REITs of similar size.

The Compensation Committee has also in recent years, including 2005, structured the compensation of the Chief Executive Officer, President or Chief Operating Officer, and Chief Financial Officer with a view to setting the components of compensation so that, in a year when target performance is achieved, base salary, cash bonus and long-term equity 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.

*Base Salary.* The Compensation Committee establishes base salary levels for its key executives after reviewing their duties and making an 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 officers for the achievement of specified performance goals by the Company, the individual and the individual's business unit, with varying weightings applied to each category of goals based on the individual's position within the Company. Each year, the Compensation Committee sets for each officer the threshold, target and maximum cash bonus that may be awarded to that officer if threshold, target or maximum goals are achieved. For bonuses granted in 2006 with respect to 2005, the



Company-wide goals used in determining cash bonuses were (i) the achievement of a targeted level of Funds from Operations ( FFO ) per share, (ii) the achievement of growth in FFO per share as compared to a peer group of apartment REITs, (iii) the achievement of a targeted average fixed charge coverage ratio, (iv) the operating performance of development and construction activities as compared to the original budgeted performance, and (v) the effectiveness of management and progress on various corporate initiatives. The weightings applicable to each goal were set in advance. An assessment of individual and business unit achievements for each officer and business unit are recommended by the CEO to the Compensation Committee. The same categories of Company-wide goals will be used to determine cash bonus awards to be granted in 2007 with respect to 2006, except that (A) relative growth in FFO will be measured by reference to Operating FFO (Excluding Non-Routine Items) , which excludes items such as gains on land sales which can affect FFO in a manner not contemplated by an annual budget and (B) the weighting previously given to achievement of a targeted average fixed charge coverage ratio has been allocated to the other items.

*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 in advance for each executive officer the threshold, target and maximum number or value of restricted shares and options that may be granted to that officer if threshold, target or maximum goals are achieved by the Company and the individual business unit. The Company s goals for 2005 were (a) total stockholder return as measured on both an absolute basis (based on a three-year average) and a relative basis as measured against a peer group of apartment REITs, (b) 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 (c) the effectiveness of management and progress on various corporate initiatives. For awards to be granted in 2007 with respect to 2006, the same categories of goals will be used. The weightings applicable to each goal have been set in advance. The business unit goals for long-term incentive awards are the same as the business unit goals for determining cash bonuses, but with a different weighting. 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, all members of which are independent under applicable NYSE standards. Final compensation determinations for each fiscal year are generally made in January or February of the following year after financial statements 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. Base salaries and threshold, target and maximum cash bonuses and long-term incentive awards for the following fiscal year are generally set in December of the prior year. At meetings held on November 11, 2005, January 4, 2006 and January 27, 2006, the Compensation Committee determined, and at a meeting held on February 9, 2006, the full Board of Directors ratified, the awards of annual cash bonuses, stock options and restricted stock described in the Summary Compensation Table included in this Proxy Statement. Final determinations as to compensation and bonus awards for the CEO are made by a vote of the independent directors only.

*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 bonus 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 in achieving his individual goals and objectives.

In his capacity as Chief Executive Officer, Mr. Blair received in 2005 \$716,827 as base salary, and the Compensation Committee believes that this amount, 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. Based on the process and goals described above for determining bonuses, in January 2006, the Committee approved for Mr. Blair, with respect to 2005 performance, and in February 2006 the independent directors ratified, a cash bonus of \$1,099,075 and an award of 18,912 shares of restricted stock and 189,264 options.

*Compensation of Other Executive Officers.* The Company's executive compensation program for other executive officers is based on the same Company-wide goals described above for the Chief Executive Officer, with varying individual and business unit goals. 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. Based on the process and goals described above for determining bonuses, the Compensation Committee approved for the Named Executive Officers (other than the Chief Executive Officer) the cash bonuses and grants of options and restricted stock described in the Summary Compensation Table.

*Section 162(m).* The SEC requires that this report comment upon the Company's policy with respect to Section 162(m) of the Internal Revenue Code of 1986, as amended, 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 pays dividends sufficient to minimize federal income taxes, the payment of compensation that does not satisfy the requirements of Section 162(m) will generally 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:*

Amy P. Williams (Chair)  
John J. Healy, Jr.  
H. Jay Sarles

#### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee consists of John J. Healy, Jr., H. Jay Sarles and Amy P. Williams. 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).

**V. STOCK PERFORMANCE, STOCK OWNERSHIP AND OTHER INFORMATION**

**Stock Performance Graph**

The following graph provides a comparison, from December 2000 through December 2005, of the cumulative total stockholder return (assuming reinvestment of dividends) among the Company, the Standard & Poor's ( S&P ) 500 Index, and a peer group index composed of 22 publicly-traded apartment REITs, including the Company (the NAREIT Apartment Index ). The NAREIT Apartment Index includes only REITs that invest directly or indirectly primarily 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.

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.

24

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**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, 2005; (ii) each of the Company's directors and Nominees as of February 1, 2006; (iii) each of the Named Executive Officers as of February 1, 2006; and (iv) all directors and executive officers as a group as of February 1, 2006, based on representations of officers and directors of the Company and filings through February 2006 received by the Company on Schedule 13G under the Exchange Act. All such information was provided by the stockholders listed and reflects their beneficial ownership known by the Company. All percentages have been calculated as of February 1, 2006 and are based upon 73,998,786 shares of Common Stock outstanding at the close of business on such date (unless otherwise indicated).

| Name and Business Address of Beneficial Owner (1)                                 | Number of Shares<br>of Common Stock<br>Beneficially Owned (2) | Percent<br>of Class<br>(%) |
|---|---|----------------------------|
| Bryce Blair   | 466,157 (3)   | *                          |
| Bruce A. Choate   | 55,302 (4)  | *                          |
| Lili F. Dunn  | 86,743 (5)  | *                          |
| John J. Healy, Jr   | 18,272 (6)  | *                          |
| Leo S. Horey  | 100,521 (7)   | *                          |
| Gilbert M. Meyer  | 1,442,982 (8)   | 1.94                       |
| Timothy J. Naughton   | 255,425 (9)   | *                          |
| Lance R. Primis   | 9,216   | *                          |
| Thomas J. Sargeant  | 184,500 (10)(11)  | *                          |
| H. Jay Sarles   | 2,998   | *                          |
| Allan D. Schuster   | 24,869 (12)   | *                          |
| Amy P. Williams   | 6,316   | *                          |
| All directors and executive officers as a group (15 persons)                      | 2,735,089 (13)  | 3.64                       |
| Cohen & Steers, Inc.<br>757 Third Avenue, New York, NY 10017                      | 5,069,604 (14)  | 6.85                       |
| Morgan Stanley<br>1585 Broadway, New York, NY 10036                               | 4,968,367 (15)  | 6.71                       |
| Deutsche Bank AG Taunusanlage 12, D-60325, Frankfurt am Main, Republic of Germany | 4,945,005 (16)  | 6.68                       |
| LaSalle Investment Management, Inc. 200 East Randolph Drive, Chicago, IL 60601    | 4,343,224 (17)  | 5.87                       |

\* Less than one percent

(1) The address for all directors and executive officers is AvalonBay Communities, Inc., 2900 Eisenhower Ave., Suite 300, Alexandria, Virginia 22314.

(2) Except as otherwise noted, each individual in the table above has the sole voting and investment power over the shares listed.

(3) Includes (i) 290,805 shares issuable upon the exercise of stock options that vest on or before April 1, 2006 and (ii) 425 shares held indirectly for minor children.

(4) Includes (i) 25,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2006 and (ii) 23,802 shares issuable in the future under deferred stock awards granted to Mr. Choate in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.

(5) Includes 55,899 shares issuable upon the exercise of stock options that vest on or before April 1, 2006.

- (6) Includes 18,272 shares issuable in the future under deferred stock awards granted to Mr. Healy in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.
- (7) Includes (i) 55,044 shares issuable upon the exercise of stock options that vest on or before April 1, 2006 and (ii) 26,181 shares owned jointly with spouse.
- (8) Includes (i) 342,400 shares issuable upon the exercise of stock options that vest on or before April 1, 2006, (ii) 1,056,565 shares owned jointly with spouse, (iii) 42,667 shares issuable in the future under deferred stock awards granted to Mr. Meyer in lieu of restricted stock awards pursuant to elections made under the Stock Incentive Plan, and (iv) 1,350 shares owned by the Gilbert M. and Carol M. Meyer Foundation for which Mr. Meyer disclaims beneficial ownership.
- (9) Includes 179,070 shares issuable upon the exercise of stock options that vest on or before April 1, 2006.
- (10) Includes (i) 80,892 shares issuable upon the exercise of stock options that vest on or before April 1, 2006, (ii) 82,785 shares owned jointly with Mr. Sargeant's spouse and (iii) 1,352 shares held by his spouse.
- (11) Mr. Sargeant also holds 700 shares of the Company's Series H Cumulative Redeemable Preferred Stock (representing less than 1% of such class).
- (12) Includes 13,311 shares issuable in the future under deferred stock awards granted to Mr. Schuster in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.
- (13) Includes (i) 1,078,038 shares issuable upon the exercise of stock options that vest on or before April 1, 2006, (ii) 98,052 shares issuable in the future under deferred stock awards, and (iii) 1,350 held in trust for which beneficial ownership is disclaimed.
- (14) The information reported includes 5,042,610 shares beneficially owned by Cohen & Steers Capital Management, Inc. (Cohen & Steers Management), a wholly owned subsidiary of Cohen & Steers, Inc. (Cohen & Steers), and 26,994 shares beneficially owned by Houlihan Rovers SA (Houlihan), a Belgian entity in which Cohen & Steers holds a 50% interest. The information reported is based upon a Schedule 13G filed with the SEC on February 10, 2006 reporting beneficial ownership as of December 31, 2005. This Schedule 13G indicates that Cohen & Steers Management and Houlihan are investment advisers registered under Section 203 of the Investment Advisers Act of 1940 and Cohen & Steers is a parent holding company. The Schedule 13G also indicates that (i) Cohen & Steers has sole voting power with respect to 4,563,445 shares, sole dispositive power with respect to 5,042,610 shares and shared voting and dispositive power with respect to 26,994 shares, and (ii) neither Cohen & Steers Management nor Houlihan has any shared dispositive power or shared voting power with respect to the shares.
- (15) The information reported includes 4,274,844 shares beneficially owned by Morgan Stanley Investment Management Inc. (Morgan Stanley Investment), a wholly owned subsidiary of Morgan Stanley. Information reported is based upon a Schedule 13G filed with the SEC on February 15, 2006 reporting beneficial ownership as of December 31, 2005. The Schedule 13G indicates that Morgan Stanley Investment is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 and Morgan Stanley is a parent holding company. The Schedule 13G also indicates that (i) Morgan Stanley has sole voting and dispositive power with respect to 3,701,139 shares and shared voting and dispositive power with respect to 1,986 shares and (ii) Morgan Stanley Investment has sole voting and disposition power with respect to 3,127,362 shares, and no shared dispositive power or shared voting power with respect to any of the shares.



(16) The information reported includes 5,900 shares beneficially owned by Deutsche Investment Management Company Americas ( Deutsche Investment Management ), 1,900 shares beneficially

26

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owned by Deutsche Bank Trust Corp. Americas ( Deutsche Bank Trust ), 4,927,305 shares beneficially owned by RREEF America, LLC ( RREEF ), and 6,200 shares beneficially owned by DWS Holding & Service GmbH ( DWS ). The information reported is based upon a Schedule 13G filed with the SEC on February 8, 2006 reporting beneficial ownership as of December 30, 2005. The Schedule 13G indicates that Deutsche Investment Management, RREEF and DWS are each investment advisors registered under the Investment Advisers Act of 1940, Deutsche Bank Trust is a bank and Deutsche Bank AG is a parent holding company. The Schedule 13G also indicates that (i) Deutsche Bank AG has sole voting power with respect to 4,933,505 shares, sole dispositive power with respect to 4,944,205 shares and shared dispositive power with respect to 800 of the shares, (ii) Deutsche Investment Management has sole dispositive power with respect to 5,900 shares, and no voting power or shared dispositive power, (iii) Deutsche Bank Trust has sole dispositive power with respect to 1,900 shares and no voting or shared dispositive power, (iv) RREEF has sole voting and dispositive power with respect to 4,927,305 shares and no shared voting or dispositive power, and (v) DWS has sole voting and dispositive power with respect to 6,200 shares and no shared voting or dispositive power.

(17) The information reported includes 3,681,169 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 ) and the general partner of which is LaSalle Investment Management (Securities), Inc. Information reported is based upon a Schedule 13G filed with the SEC on February 16, 2006 reporting beneficial ownership as of December 31, 2005. 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 sole dispositive power and voting power with respect to 176,069 shares and no shared voting or dispositive power and (ii) LaSalle Securities has sole voting and dispositive power with respect to 3,230,281 shares and no shared voting or dispositive power

#### **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, directors of the Company 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 to 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, 2005, all filing requirements applicable to the Insiders were timely satisfied, with the exception of the following: Form 3 Reports were filed on behalf of Lili F. Dunn and J. Richard Morris on March 8, 2005, four business days after the due date of March 2, 2005. A Form 4 reporting a sale of stock by Charlene Rothkopf was filed on August 1, 2005, the next business day following the due date of July 29, 2005.

#### **VI. OTHER MATTERS**

##### **Solicitation of Proxies**

The cost of solicitation of proxies for the Annual Meeting will be paid by the Company. In addition to the solicitation of proxies by mail, the directors, officers and employees of the Company may also solicit proxies personally or by telephone without additional compensation for such activities. The Company will also request persons, firms, and corporations holding shares in their names or in the names of their

nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from such beneficial owners. The Company will reimburse such holders for their reasonable expenses.

**Stockholder Proposals for Annual Meetings**

Stockholder proposals submitted pursuant to Exchange Act Rule 14a-8 for inclusion in the Company's proxy statement and form of proxy for the 2007 annual meeting of stockholders must be received by the Company by December 4, 2006. Such a proposal must also comply with the requirements as to form and substance established by the SEC for such a proposal to be included in the proxy statement and form of proxy.

In accordance with our Bylaws as currently in effect, for a stockholder to nominate a director or for a proposal of a stockholder to be presented at the Company's 2007 annual meeting of stockholders, other than a stockholder proposal intended to be included in our proxy statement and submitted pursuant to Rule 14a-8 of the Exchange Act, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Company, together with all supporting documentation required by the Company's Bylaws, (A) not prior to December 4, 2006 nor later than January 3, 2007 or (B) in the event that the notice for the 2007 annual meeting of stockholders is sent out more than 30 days prior to or after April 3, 2007, (i) not earlier than the close of business on the 120<sup>th</sup> day prior to the date on which notice of the date of such meeting is mailed to stockholders, and (ii) not later than the close of business on the later of (x) the 90<sup>th</sup> day prior to the date of mailing of the notice for such annual meeting or (y) the 10<sup>th</sup> day following the day on which public announcement of the date of mailing of the notice for such annual meeting is first made. You may contact the Company's Secretary at the address mentioned below for a copy of the relevant Bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates. Any such proposals should be mailed to: AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Secretary.

**AVALONBAY COMMUNITIES, INC.**  
**2900 EISENHOWER AVENUE**  
**SUITE 300**  
**ALEXANDRIA, VA 22314**

Please take a moment now to authorize a proxy to vote your shares of AvalonBay Communities, Inc. common stock at the 2006 Annual Meeting of Stockholders.

**YOU CAN AUTHORIZE A PROXY TO VOTE  
 YOUR SHARES TODAY IN ONE OF THREE WAYS:**

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions provided on the web site.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and follow the instructions provided.

**VOTE BY MAIL**

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to AvalonBay Communities, Inc., c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

AVALN3

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**AVALONBAY COMMUNITIES, INC.**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE  
 FOR PROPOSAL 1**

|    |   |                             |                                  |                                    |  |
|----|---|-----------------------------|----------------------------------|------------------------------------|--|
| 1. | To elect the following nine individuals to serve until the 2007 Annual Meeting of Stockholders and until their respective successors are elected and qualify: (01) Bryce Blair, (02) Bruce A. Choate, (03) John J. Healy, Jr., (04) Gilbert M. Meyer, (05) Timothy J. Naughton, (06) Lance R. Primis, (07) H. Jay Sarles, (08) Allan D. Schuster, and (09) Amy P. Williams. | <b>For<br/>All</b><br><br>o | <b>Withhold<br/>All</b><br><br>o | <b>For All<br/>Except</b><br><br>o | To withhold authority to vote, mark For All Except and write the nominee's number on the line below. |
| 2. | To ratify the selection of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 2006.   | <b>For</b><br><br>o         | <b>Against</b><br><br>o          | <b>Abstain</b><br><br>o            |  |

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3. To vote and otherwise represent the undersigned on any other matter that may properly come before the Annual Meeting or any adjournment or postponement thereof in the discretion of the proxy holder

Please sign exactly as your name appears on this card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign. If executed by a company or partnership, the proxy should be executed in the full corporate or partnership name and signed by a duly authorized person, stating his or her title or authority.

|  |  |                 |                |
|--|--|-----------------|----------------|
|  | Please indicate if you plan to attend this meeting | <b>Yes</b><br>o | <b>No</b><br>o |
|--|--|-----------------|----------------|

|                                       |      |                          |      |
|---------------------------------------|------|--------------------------|------|
| Signature [PLEASE SIGN<br>WITHIN BOX] | Date | Signature (Joint Owners) | Date |
|---------------------------------------|------|--------------------------|------|

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**AVALONBAYCOMMUNITIES, INC.**

ANNUAL MEETING OF STOCKHOLDERS, MAY 17, 2006, 9:00 A.M. LOCAL TIME

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

PROXY

The undersigned stockholder of AvalonBay Communities, Inc., a Maryland corporation (the Company), hereby appoints Bryce Blair, Timothy J. Naughton, and Thomas J. Sargeant, and each of them, as proxies for the undersigned, each with full power of substitution, to attend the Annual Meeting of Stockholders of the Company, to be held at The Mandarin Oriental Hotel, 222 Sansome Street, San Francisco, CA 94104 on May 17, 2006, 9:00 a.m. local time, and any adjournments or postponements thereof (the Annual Meeting), to cast on behalf of the undersigned all votes that the undersigned is entitled to cast at the Annual Meeting and otherwise to represent the undersigned with all of the powers the undersigned would possess if personally present at the Annual Meeting. The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting of Stockholders and of the Proxy Statement, the terms of each of which are incorporated herein by reference, and revokes any proxy heretofore given with respect to the Annual Meeting.

**IF THIS PROXY IS PROPERLY EXECUTED, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST AS DIRECTED HEREIN, BUT IF THIS PROXY IS EXECUTED BUT NO INSTRUCTIONS ARE SPECIFIED, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST FOR PROPOSAL 1 AND FOR PROPOSAL 2. IF ANY OTHER BUSINESS IS PRESENTED AT THE ANNUAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF, INCLUDING WHETHER OR NOT TO ADJOURN THE ANNUAL MEETING, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST BY THE PROXIES IN THEIR DISCRETION. AT THE PRESENT TIME, THE BOARD OF DIRECTORS IS NOT AWARE OF ANY OTHER BUSINESS TO BE PRESENTED AT THE ANNUAL MEETING. THIS PROXY ALSO CONFERS DISCRETIONARY AUTHORITY ON THE PROXIES TO VOTE WITH RESPECT TO THE ELECTION OF ANY INDIVIDUAL AS DIRECTOR WHERE ONE OR MORE NOMINEES ARE UNABLE TO SERVE, OR FOR GOOD CAUSE WILL NOT SERVE, AND WITH RESPECT TO MATTERS INCIDENTAL TO THE CONDUCT OF THE ANNUAL MEETING. STOCKHOLDERS WHO PLAN TO ATTEND THE ANNUAL MEETING MAY REVOKE THEIR PROXY BY CASTING THEIR VOTE AT THE ANNUAL MEETING IN PERSON.**

**SEE REVERSE  
SIDE**

**PLEASE COMPLETE, DATE, SIGN AND PROMPTLY MAIL  
THIS PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE**

**SEE REVERSE  
SIDE**