SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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# FORM 8-K

CURRENT REPORT

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

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Date of Report (Date of earliest event reported): JUNE 4, 1998

AVALON BAY COMMUNITIES, INC.
(Exact name of Registrant as specified in charter)

| MARYLAND | 1-12672 | 77-0404318 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission file number) | (IRS employer identification no.) |

2900 EISENHOWER AVENUE, SUITE 300, ALEXANDRIA, VA 22314
(Address of principal executive offices) (Zip Code)

(703) 329-6300
(Registrant's telephone number, including area code)

BAY APARTMENT COMMUNITIES, INC.
4340 STEVENS CREEK BOULEVARD, SUITE 275
SAN JOSE, CALIFORNIA 95129
(Former name and former address, if changed since last report)

Item 2. ACQUISITION OR DISPOSITION OF ASSETS

On June 4, 1998, pursuant to an Agreement and Plan of Merger, dated as of March 9, 1998 (the "Merger Agreement"), by and between Bay Apartment Communities, Inc., a Maryland corporation ("Bay"), and Avalon Properties, Inc., a Maryland corporation ("Avalon"), Avalon merged with and into Bay (the "Merger"), with Bay as the surviving corporation. In connection with the Merger, Bay changed its name to "Avalon Bay Communities, Inc." ("Avalon Bay").

Pursuant to the Merger Agreement, holders of Avalon common stock, par value $.01 per share ("Avalon Common Stock"), are entitled to receive, for each such share held by them on June 4, 1998 at 10:00 p.m. (Baltimore, Maryland time) (the "Effective Time"), 0.7683 of a share of Avalon Bay common stock, par value $.01 per share ("Avalon Bay Common Stock"), and an equal number of associated rights ("Rights") to purchase, under certain circumstances, one one-thousandth of a share of the Company's Series E Junior Participating Cumulative Preferred Stock, par value $.01 per share. In exchange for each share of Avalon 9.00% Series A Cumulative Redeemable Preferred Stock, par value $.01 per share, holders thereof are entitled to receive, for each such share held by them at the Effective Time, one share of Avalon Bay 9.00% Series F Cumulative Redeemable Preferred Stock, par value $.01 per share ("Avalon Bay Series F Preferred Stock"), and in exchange for each share of Avalon 8.96% Series B Cumulative Redeemable Preferred Stock, par value $.01 per share, holders thereof are entitled to receive, for each such share held by them at the Effective Time, one share of Avalon Bay 8.96% Series G Cumulative Redeemable Preferred Stock, par value $.01 per share ("Avalon Bay Series G Preferred Stock"). In addition, any holder of Avalon Common Stock who would otherwise be entitled to receive a fraction of a share of Avalon Bay Common Stock will instead receive an amount of cash equal to the product of such fraction and $36.825, subject to applicable withholding taxes.

The aggregate liquidation value of the Avalon Bay Series F Preferred Stock and Avalon Bay Series G Preferred Stock issued in the Merger is approximately $218.9 million. In connection with the Merger, Avalon Bay also assumed outstanding liabilities of Avalon of approximately $646 million.

Item 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED. Financial statements of the business acquired are included as Exhibits 99.1 and 99.2 hereto.

(b) PRO FORMA FINANCIAL INFORMATION. Unaudited pro forma financial information as of and for the three months ended March 31, 1998 and for the year ended December 31, 1997 are included as Exhibit 99.3 hereto.



(c) EXHIBITS.

2.1 Agreement and Plan of Merger, dated as of March 9, 1998, by and between Bay Apartment Communities, Inc. and Avalon Properties, Inc. (Incorporated by reference to the Current Report on Form 8-K filed by Bay Apartment Communities, Inc. on March 11, 1998.)

99.1 Financial Statements of Avalon Properties, Inc. at and for the periods ended December 31, 1997. (Incorporated by reference to the Annual Report on Form 10-K filed by Avalon Properties, Inc. on March 30, 1998, as amended and restated by Form 10-K/A filed by Avalon Properties, Inc. on April 7, 1998.)

99.2 Unaudited Financial Statements of Avalon Properties, Inc. at and for the period ended March 31, 1998. (Incorporated by reference to the Quarterly Report on Form 10-Q filed by Avalon Properties, Inc. on May 15, 1998.)

99.3 Unaudited Pro Forma Financial Information as of and for the three months ended March 31, 1998 and for the year ended December 31, 1997.



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be filed on its behalf by the undersigned thereunto duly authorized.

AVALON BAY COMMUNITIES, INC.

Dated: June 19, 1998

By: /s/ Joanne M. Lockridge
Name: Joanne M. Lockridge
Title: Vice President-Finance

Exhibit 99.3

# UNAUDITED PRO FORMA FINANCIAL STATEMENTS

## AVALON BAY COMMUNITIES, INC.
## PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
## MARCH 31, 1998

(UNAUDITED)

The following unaudited Pro Forma Condensed Consolidated Balance Sheet of Avalon Bay Communities, Inc. ("Avalon Bay") as of March 31, 1998 gives effect to the subsequent acquisition of six communities (Avalon Ridge, Sunpointe, Verandas, Oxford Hills, Gates of Edinburgh and Prudential Center) and to the Merger as if they had occurred on March 31, 1998, all under the purchase method of accounting in accordance with Accounting Principles Board Opinion No. 16.

The unaudited Pro Forma Condensed Consolidated Balance Sheet is presented for informational purposes only and is not necessarily indicative of what the actual condensed consolidated financial position of Avalon Bay would have been as of March 31, 1998, nor does it purport to represent the future condensed consolidated financial position of Avalon Bay. This information should be read in conjunction with the unaudited consolidated financial statements and other financial information contained in Bay's Quarterly Report on Form 10-Q and Avalon's Quarterly Report on Form 10-Q, in each case for the three months ended March 31, 1998, including the notes thereto.

AVALON BAY COMMUNITIES, INC.
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 1998
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | Avalon Historical Consolidated | Bay Historical Consolidated | Pro Forma Adjustments: Acquisition Communities | Pro Forma Adjustments: Merger | Avalon Bay Pro Forma Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Real estate, net | $1,543,520 | $1,417,708 | $233,344 | $479,134 | $3,673,706 |
| Cash and cash equivalents | 3,497 | 2,892 | -- | -- | 6,389 |
| Cash in escrow | 3,083 | 1,845 | -- | -- | 4,928 |
| Resident security deposits | 8,448 | 5,799 | -- | -- | 14,247 |
| Investments in joint ventures | 18,052 | -- | -- | -- | 18,052 |
| Deferred financing costs, net | 9,891 | 8,821 | -- | (9,891) | 8,821 |
| Deferred development costs | 8,218 | 989 | -- | -- | 9,207 |
| Other assets | 16,404 | 9,410 | -- | -- | 25,814 |
| TOTAL ASSETS | $1,611,113 | $1,447,464 | $233,344 | $469,243 | $3,761,164 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Notes payable and Unsecured Facilities | $ 558,336 | $ 605,191 | $233,344 | $ 25,000 | $1,421,871 |
| Payables for construction | 13,624 | 5,619 | -- | -- | 19,243 |
| Accrued expenses and other liabilities | 23,535 | 26,758 | -- | -- | 50,293 |
| Resident security deposits | 10,235 | 6,857 | -- | -- | 17,092 |

| | | | | | |
|---|---|---|---|---|---|
| TOTAL LIABILITIES | 605,730 | 644,425 | 233,344 | 25,000 | 1,508,499 |
| Minority interest in Operating Partnerships | 16,167 | 9,124 | -- | -- | 25,291 |
| Stockholders' equity: | | | | | |
| Preferred Stock | 88 | 83 | -- | (27) | 144 |
| Common Stock | 431 | 262 | -- | (73) | 620 |
| Additional paid-in capital | 1,021,302 | 826,792 | -- | 417,705 | 2,265,799 |
| Deferred compensation | (5,967) | -- | -- | -- | (5,967) |
| Distributions in excess of accumulated earnings | (26,638) | (33,222) | -- | 26,638 | (33,222) |
| STOCKHOLDERS' EQUITY | 989,216 | 793,915 | -- | 444,243 | 2,227,374 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $1,611,113 | $1,447,464 | $233,344 | $469,243 | $3,761,164 |

</TABLE>

See accompanying notes.

AVALON BAY
NOTES TO PRO FORMA CONDENSED CONSOLIDATED
BALANCE SHEET
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

1. BASIS OF PRESENTATION

The pro forma adjustments for the Acquisition Communities reflect the five communities acquired by Avalon, Bay or Avalon Bay subsequent to March 31, 1998 (Avalon Ridge, Sunpointe, Verandas, Oxford Hills and Gates of Edinburgh) and one community that is a probable acquisition (Prudential Center) as if they had been acquired on March 31, 1998. The merger pro forma adjustments reflect the Merger as if it had occurred on March 31, 1998.

2. MERGER ADJUSTMENTS

i. Real estate, net: The adjustment reflects the increase in book value of Avalon's real estate assets based upon the Bay purchase of (1) the common stock of Avalon (Bay common stock is valued at $36.825 per share) based upon the exchange of each outstanding share of common stock of Avalon for .7683 of a share of Bay common stock, and (2) the conversion of Avalon Preferred Stock for substantially equivalent preferred stock of Bay as follows:

| | |
|---|---|
| Issuance of 33,144,635 shares of Bay common stock (assumed value of $36.825 per share) based on the exchange ratio of .7683 shares of Bay common stock for each share of Avalon common stock ............ | $1,220,551 |
| Issuance of Bay preferred stock in exchange for Avalon Preferred Stock (liquidation price of $25.00 for 8,755,000 shares of preferred stock)... | 218,875 |
| Estimated costs associated with the merger......... | 25,000 |
| Purchase Price.................................... | 1,464,426 |
| Less: Historical book basis of Avalon's net assets acquired (excludes deferred financing costs, net and deferred compensation)........................ | (985,292) |
| Real estate, net pro forma adjustment............. | $ 479,134 |

ii. Deferred financing costs, net: The adjustment reflects the elimination of Avalon deferred financing costs which have no future value to Avalon Bay.

iii. Notes payable and Unsecured Facilities: The adjustment reflects additional borrowings for the payment of the estimated fees and other expenses relating to the Merger including, but not limited to, investment banking fees, legal and accounting fees, printing, filing and other related costs.

iv. Stockholders' equity: The adjustments to stockholders' equity reflect the issuance of 33,144,635 shares of Bay common stock, par value $.01 per share, the exchange of Avalon Preferred Stock for substantially equivalent preferred stock of Bay, and the conversion of Bay Series A Preferred Stock and Bay Series B Preferred Stock for Bay common stock as follows:

<TABLE>
<CAPTION>

| | PREFERRED STOCK | COMMON STOCK | PAID-IN CAPITAL (PREFERRED) | PAID-IN CAPITAL (COMMON) | DEFERRED COMPENSATION | DISTRIBUTIONS IN EXCESS OF ACCUMULATED EARNINGS |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Issuance of Bay Common Stock ................ | $ -- | $ 331 | $ -- | $1,220,220 | $ -- | $ -- |
| Avalon historical stockholders' equity ....... | (88) | (431) | (218,787) | (802,515) | 5,967 | 26,638 |
| Issuance of Bay Preferred Stock in exchange for Avalon Preferred Stock ................ | 88 | -- | 218,787 | -- | -- | -- |
| Bay assumption of Avalon deferred compensation .............................. | -- | -- | -- | -- | (5,967) | -- |
| Bay conversion of Series A Preferred Stock and Series B Preferred Stock .............. | (27) | 27 | (67,818) | 67,818 | -- | -- |
| STOCKHOLDERS' EQUITY PRO FORMA ADJUSTMENTS ... | $(27) | $ (73) | $ (67,818) | $ 485,523 | $ -- | $26,638 |

</TABLE>

AVALON BAY COMMUNITIES, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND THE
YEAR ENDED DECEMBER 31, 1997

(UNAUDITED)

The following unaudited Pro Forma Condensed Consolidated Statements of Income of Avalon Bay for the three months ended March 31, 1998 and the year probable acquisitions, and the Merger as if the transactions had occurred on January 1, 1997. The acquisitions and Merger are accounted for under the purchase method of accounting in accordance with Accounting Principles Board Opinion No. 16.

The unaudited Pro Forma Condensed Consolidated Statements of Income are presented for informational purposes only and are not necessarily indicative of what the actual consolidated operating results of Avalon Bay would have been for the three months ended March 31, 1998 or the year ended December 31, 1997, nor do they purport to represent the future condensed consolidated financial results of Avalon Bay. This information should be read in conjunction with the audited consolidated financial statements and other financial information contained in Bay's Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, and Avalon's Annual Report on Form 10-K, as amended and restated by Amendment No. 1 on Form 10-K/A, in each case for the year ended December 31, 1997, and Bay's Quarterly Report on Form 10-Q, and Avalon's Quarterly Report on Form 10-Q, in each case for the three months ended March 31, 1998, including the notes thereto.

AVALON BAY COMMUNITIES, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 1998
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | Avalon Pro Forma Consolidated | Bay Pro Forma Consolidated | Pro Forma Adjustments: Acquisition Communities | Pro Forma Adjustments: Merger | Avalon Bay Pro Forma Consolidated |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Rental income | $ 56,018 | $ 44,684 | $ 6,472 | -- | $ 107,174 |
| Management fees | 375 | -- | -- | -- | 375 |
| Other income | 138 | 1,753 | 97 | -- | 1,988 |
| Total revenue | 56,531 | 46,437 | 6,569 | -- | 109,537 |
| Expenses | | | | | |
| Operating expenses | 20,928 | 14,558 | 3,110 | -- | 38,596 |
| Interest expense | 6,578 | 6,880 | 4,084 | 438 | 17,980 |
| Depreciation and amortization | 9,301 | 10,128 | 1,649 | 5,318 | 26,396 |
| General and administrative | 1,400 | 2,016 | -- | -- | 3,416 |
| Total expenses | 38,207 | 33,582 | 8,843 | 5,756 | 86,388 |
| Equity in income of joint ventures | 651 | -- | -- | -- | 651 |
| Interest income | 296 | -- | -- | -- | 296 |
| Income before minority interest | 19,271 | 12,855 | (2,274) | (5,756) | 24,096 |
| Minority interest | (411) | (154) | -- | -- | (565) |
| Net income | 18,860 | 12,701 | (2,274) | (5,756) | 23,531 |
| Dividends attributable to preferred stock | (4,914) | (4,029) | -- | 1,174 | (7,769) |
| Net income available to common stockholders | $ 13,946 | $ 8,672 | $(2,274) | $(4,582) | $ 15,762 |
| Net income per share of common stock-basic | $ 0.33 | $ 0.33 | | | $ 0.26 |
| Net income per share of common stock-diluted | $ 0.33 | $ 0.33 | | | $ 0.25 |

Weighted average number of shares of common

| | | | |
|---|---|---|---|
| stock-basic | 42,618,030 | 26,172,571 | 61,629,825 |
| Weighted average number of shares of common stock-diluted | 42,905,479 | 26,451,240 | 62,195,943 |

</TABLE>

See accompanying notes.

AVALON BAY COMMUNITIES, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

| | Avalon Pro Forma Consolidated | Bay Pro Forma Consolidated | Pro Forma Adjustments: Acquisition Communities | Pro Forma Adjustments: Merger | Avalon Bay Pro Forma Consolidated |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Revenue | | | | | |
| Rental income | $ 197,081 | $ 172,081 | $23,716 | -- | $ 392,878 |
| Management fees | 2,065 | -- | -- | -- | 2,065 |
| Other income | 928 | 4,961 | 502 | -- | 6,391 |
| Total revenue | 200,074 | 177,042 | 24,218 | -- | 401,334 |
| Expenses | | | | | |
| Operating expenses | 75,589 | 53,522 | 11,629 | -- | 140,740 |
| Interest expense | 27,263 | 25,486 | 15,867 | 1,700 | 70,316 |
| Depreciation and amortization | 33,859 | 41,881 | 6,596 | 18,180 | 100,516 |
| General and administrative | 5,093 | 6,308 | -- | -- | 11,401 |
| Total expenses | 141,804 | 127,197 | 34,092 | 19,880 | 322,973 |
| Equity in income of joint ventures | 5,689 | -- | -- | -- | 5,689 |
| Interest income | 1,346 | 375 | -- | -- | 1,721 |
| Other income | 253 | -- | -- | -- | 253 |
| Income before gain on sale of community, extraordinary item and minority interest | 65,558 | 50,220 | (9,874) | (19,880) | 86,024 |
| Gain on sale of community | 677 | -- | -- | -- | 677 |

| | | | | | |
|---|---|---|---|---|---|
| Income before extraordinary item and minority interest | 66,235 | 50,220 | (9,874) | (19,880) | 86,701 |
| Extraordinary item | (1,183) | -- | -- | -- | (1,183) |
| Income before minority interest | 65,052 | 50,220 | (9,874) | (19,880) | 85,518 |
| Minority interest | (936) | (674) | -- | -- | (1,610) |
| Net income | 64,116 | 49,546 | (9,874) | (19,880) | 83,908 |
| Dividends attributable to preferred stock | (19,656) | (16,063) | -- | 4,640 | (31,079) |
| Net income available to common stockholders | $ 44,460 | $ 33,483 | $(9,874) | $(15,240) | $ 52,829 |
| Income per share before extraordinary item-basic | $ 1.24 | $ 1.49 | | | $ 1.01 |
| Income per share before extraordinary item-diluted | $ 1.23 | $ 1.49 | | | $ 1.01 |
| Net income per share of common stock-basic | $ 1.21 | $ 1.49 | | | $ 0.99 |
| Net income per share of common stock-diluted | $ 1.20 | $ 1.49 | | | $ 0.98 |
| Weighted average number of shares of common stock-basic | 36,762,781 | 22,472,394 | | | 53,431,061 |
| Weighted average number of shares of common stock-diluted | 37,006,148 | 22,472,394 | | | 53,674,428 |

</TABLE>

See accompanying notes.

AVALON BAY
NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS)

1. BASIS OF PRESENTATION

The Bay Pro Forma Income Statement assumes that all acquisitions completed during 1997 and through March 31, 1998 had occurred as of January 1, 1997.

The Avalon Pro Forma Income Statement assumes that all acquisitions completed during 1997 and through March 31, 1998 had occurred as of January 1, 1997.

The pro forma adjustments for the Acquisition Communities represent the five communities acquired by Avalon, Bay or Avalon Bay subsequent to March 31, 1998 and one community that is a probable acquisition as if they had been acquired on January 1, 1997. The merger pro forma adjustments reflect the Merger as if it had occurred as of January 1, 1997.

2. MERGER ADJUSTMENTS

i. Interest expense: The adjustment is attributable to the interest incurred on funds obtained from the Unsecured Facilities used to pay estimated merger costs.

ii. Depreciation and amortization: The adjustment results from (1) the net increase in real estate owned as a result of recording the Avalon real estate assets at fair value versus historical cost and (2) conforming the depreciation methodology of Avalon to the policies of Avalon Bay. Depreciation is computed on the straight-line method based on an estimated life of 30 years and an allocation of the stepped-up basis to land and building of 20% and 80%, respectively.

| | THREE MONTHS ENDED MARCH 31, 1998 | YEAR ENDED DECEMBER 31, 1997 |
|---|---|---|
| Depreciation on Step-up | $3,194 | $12,777 |
| Avalon deferred financing | (242) | (968) |
| Adjustment to Avalon Historical Pro Forma depreciation to reflect the depreciation methods of Avalon Bay | 2,366 | 6,371 |
| DEPRECIATION PRO FORMA ADJUSTMENT | $5,318 | $18,180 |

iii. Weighted Average number of Common shares outstanding: The Pro Forma weighted average number of common shares outstanding are computed as follows:

| | THREE MONTHS ENDED MARCH 31, 1998 | YEAR ENDED DECEMBER 31, 1997 |
|---|---|---|
| Bay Pro Forma Weighted Average shares Outstanding | 26,172,571 | 22,472,394 |
| Issuance of Bay stock at an exchange ratio of .7683 of a share of Bay common stock for each weighted average share of Avalon common stock | 32,743,432 | 28,244,845 |
| Conversion of Bay Series A Preferred Stock and Bay Series B Preferred Stock for Bay common stock at an exchange ratio of 1 share of preferred stock for 1 share of common stock | 2,713,822 | 2,713,822 |
| Pro Forma Weighted Average Shares Common Stock - Basic - Avalon Bay | 61,629,825 | 53,431,061 |
| Shares issuable from assumed conversion of Avalon and Bay common stock options | 566,118 | 243,367 |
| PRO FORMA WEIGHTED AVERAGE SHARES COMMON STOCK - DILUTED - AVALON BAY | 62,195,943 | 53,674,428 |