ACADIA REALTY TRUST
Form 10-Q/A
May 12, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A
(Amendment No. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

MARYLAND	**23-2715194**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1311 MAMARONECK AVENUE, SUITE 260, WHITE PLAINS, NY	**10605**
(Address of principal executive offices)	**(Zip Code)**

(914) 288-8100

(Registrant s telephone number, including area code)

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

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes No

As of May 8, 2006, there were 31,766,964 common shares of beneficial interest, par value $.001 per share, outstanding.

ACADIA REALTY TRUST AND SUBSIDIARIES

10-Q/A

Explanatory Note

This Amendment No. 1 on Form 10-Q/A (Amendment No. 1) is being filed by Acadia Realty Trust (the Company) to amend certain portions of Items 1 and 2 of Part I of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 filed with the Securities and Exchange Commission on May 10, 2006 (the Initial Report). Amendment No. 1 includes certain reclassifications to the Consolidated Statement of Cash Flows for the three months ended March 31, 2005 that were inadvertently omitted from Part I, Item 1 (Financial Statements) of the Initial Report, and revises the related cash flow discussions under the headings Results of Operations and Historical Cash Flows included in Part 1, Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of the Initial Report. No changes have been made to the Company's Consolidated Balance Sheets or Consolidated Statements of Income. Except for the changes noted above, this Amendment No. 1 does not amend any information contained in the Initial Report nor does it reflect any events occurring since the filing of the Initial Report.

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Part I. Financial Information

Item 1. Financial Statements

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands, except per share amounts)

	March 31, 2006	December 31, 2005
ASSETS		
Real estate:		
Land	$ 132,516	$ 146,240
Buildings and improvements	488,611	584,962
Construction in progress	6,081	4,016
	627,208	735,218
Less: accumulated depreciation	(134,419)	(135,891)
Net real estate	492,789	599,327
Cash and cash equivalents	50,652	91,398
Cash in escrow	6,489	7,799
Restricted cash	549	548
Investments in and advances to unconsolidated partnerships	19,181	10,320
Investment in management contracts, net of accumulated amortization of $2,171 and $1,938, respectively	2,945	3,178
Preferred equity investment	19,000	19,000
Rents receivable, net	11,099	13,505
Notes receivable	43,092	15,733
Prepaid expenses	4,121	5,199
Deferred charges, net	24,494	24,288
Acquired lease intangibles	7,451	8,941
Other assets	24,103	15,786
Assets of discontinued operations	26,747	26,836
	$ 732,712	$ 841,858
LIABILITIES AND SHAREHOLDERS EQUITY		
Mortgage notes payable	$ 378,574	$ 411,000
Accounts payable and accrued expenses	11,294	19,018
Dividends and distributions payable	6,160	6,088
Share of distributions in excess of share of income and investment in unconsolidated partnerships	10,651	10,315
Other liabilities	10,823	14,375
Liabilities of discontinued operations	14,290	14,221
Total liabilities	431,792	475,017
Minority interest in Operating Partnership	8,503	9,204
Minority interests in partially-owned partnerships	69,684	137,061

Total minority interests	78,187	146,265
Shareholders equity:		
Common shares	31	31
Additional paid-in capital	224,258	223,199
Accumulated other comprehensive income (loss)	1,086	(12)
Deficit	(2,642)	(2,642)
Total shareholders equity	222,733	220,576
	$ 732,712	$ 841,858

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

(unaudited)

(dollars in thousands, except per share amounts)

	Three months ended March 31,	
	2006	**2005**
Revenues		
Minimum rents	$17,788	$18,501
Percentage rents	185	201
Expense reimbursements	4,079	4,374
Other property income	211	330
Management fee income from related parties	1,201	575
Interest income	1,746	417
Total revenues	25,210	24,398
Operating Expenses		
Property operating	4,050	4,820
Real estate taxes	2,799	2,562
General and administrative	5,307	3,115
Depreciation and amortization	6,398	6,272
Total operating expenses	18,554	16,769
Operating income	6,656	7,629
Equity in earnings of unconsolidated partnerships	4,112	261
Interest expense	(5,185)	(3,933)
Minority interest	(1,081)	201
Income from continuing operations before income taxes	4,502	4,158
Income taxes	(449)	
Income from continuing operations	4,053	4,158
Discontinued Operations:		
Operating income from discontinued operations	306	292
Minority interest	(6)	(5)
Income from discontinued operations	300	287
Net Income	$4,353	$4,445
Basic Earnings per Share		

Income from continuing operations	$0.12	$0.13
Income from discontinued operations	0.01	0.01
Basic earnings per share	$0.13	$0.14
Diluted Earnings per Share		
Income from continuing operations	$0.12	$0.13
Income from discontinued operations	0.01	0.01
Diluted earnings per share	$0.13	$0.14

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

(unaudited)

(dollars in thousands)

	March 31, 2006	March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$4,353	$4,445
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,652	6,271
Minority interests	1,087	196
Equity in earnings of unconsolidated partnerships	(4,112)	(261)
Amortization of derivative settlement included in interest expense		109
Distributions of operating income from unconsolidated partnerships	3,982	177
Restricted Share compensation	1,963	312
Changes in assets and liabilities:		
Restricted cash	(1)	102
Funding of escrows, net	(419)	396
Rents receivable	(423)	(4,664)
Prepaid expenses	154	688
Other assets	(6,997)	(5,327)
Accounts payable and accrued expenses	(1,044)	856
Other liabilities	4,351	8,101
Net cash provided by operating activities	9,546	11,401
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for real estate and improvements	(26,805)	(4,482)
Return of capital from unconsolidated partnerships	8,823	243
Increase in deferred charges	(2,471)	(898)
Increase in notes receivable	(27,359)	(2,260)
Preferred equity investment		(20,000)
Transfer of cash to unconsolidated partnerships	(1,299)	
Net cash (used in) investing activities	(49,111)	(27,397)

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

(unaudited)

(dollars in thousands)

	March 31, 2006	March 31, 2005
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgages	(28,483)	(5,463)
Proceeds received on mortgage notes	64,809	20,000
Dividends paid	(5,977)	(5,465)
Dividends and distributions payable	72	45
Distributions to minority interests in Operating Partnership	(121)	(89)
Distributions on preferred Operating Partnership Units	(62)	
Distributions to minority interests in partially-owned partnerships	(33,704)	
Contributions from minority interests in majority-owned partnerships	2,261	459
Common Shares issued under Employee Stock Purchase Plan	24	24
Net cash (used in) provided by financing activities	(1,181)	9,511
Decrease in cash and cash equivalents	(40,746)	(6,485)
Cash and cash equivalents, beginning of period	91,398	16,043
Cash and cash equivalents, end of period	$50,652	$9,558
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest, net of amounts capitalized of $11 and $96, respectively	$ 5,383	$ 4,424
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition of management contract rights through issuance of Common Operating Partnership Units	$	$ 4,000

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

1. THE COMPANY

Acadia Realty Trust (the Company) is a fully integrated and self-managed real estate investment trust (REIT) focused primarily on the ownership, acquisition, redevelopment and management of neighborhood and community shopping centers.

All of the Company s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the Operating Partnership or OP) and partnerships in which it owns a controlling interest. As of March 31, 2006, the Company controlled 98% of the Operating Partnership as the sole general partner.

In 2001, the Company formed a joint venture, Fund I, with four of its institutional investors. The Company committed a total of $20,000 to Fund I and Mervyns I, along with the four institutional shareholders, who committed $70,000, for the purpose of acquiring a total of approximately $300,000 in investments. As of March 31, 2006, the Company has contributed $16,196 to Fund I and $2,729 to Mervyns I.

The Company is the sole general partner with a 22% interest in the joint venture and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. Decisions made by the general partner, as it relates to purchasing, financing, and disposition of properties, are subject to the unanimous disapproval of the Advisory Committee of Fund I, which is comprised of representatives from each of the four institutional investors. Cash flow is distributed pro-rata to the partners (including the Company) until they have received a 9% cumulative return on, and a return of all capital contributions. Thereafter, remaining cash flow is to be distributed 80% to the partners (including the Company) and 20% to the Company as a carried interest (Promote). The Company also earns a fee for asset management services equal to 1.5% of the allocated equity in the remaining Fund I assets, as well as market-rate fees for property management, leasing and construction services. Following the recapitalization of the Brandywine Portfolio during the quarter ended March 31, 2006, all capital contributions and a 9% cumulative return have been distributed to the institutional investors. Accordingly, the Company is now entitled to a promote on all future earnings and distributions.

In June of 2004, the Company formed a joint venture, Fund II, with the investors from Fund I as well as two additional institutional investors. With $300,000 of committed discretionary capital, Fund II and Mervyns II expect to be able to acquire up to $900,000 of investments on a leveraged basis. The Company s share of committed capital is $60,000. The Company is the sole managing member with 20% interest in the joint venture and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. The terms and structure of Fund II are substantially the same as Fund I with the exceptions that the preferred return is 8%. As of March 31, 2006, the Company has contributed $10,943 to Fund II and $2,456 to Mervyns II.

2. BASIS OF PRESENTATION

The consolidated financial statements include the consolidated accounts of the Company and its controlling investments in partnerships and limited liability companies, including the Operating Partnership, and have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Non-controlling investments in partnerships are accounted for under the equity method of accounting as the Company exercises significant influence. The information furnished in the accompanying consolidated financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned consolidated financial statements for the interim periods.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006. For further information refer to the consolidated financial statements and accompanying footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

In 2005, the Emerging Issues Task Force (EITF) reached a consensus that the general partners in a limited partnership should determine whether they control a limited partnership based on the application of the framework as discussed in EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights . Under EITF 04-5, the general partners in a limited partnership are presumed to control that limited partnership regardless of the extent of the general partner s ownership interest in the limited partnership.The assessment of whether the rights of the limited partners should overcome the presumption of control by the general partners is a matter of judgment that depends on facts and circumstances. If the limited partners have either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights, the general partners do not control the limited partnership. EITF 04-5 was effective immediately for new partnerships formed and existing limited partnerships for which the partnership agreements were modified on or after June 29, 2005, and, for all other partnerships, EITF 04-5 is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The provisions of EITF 04-5 may be initially applied through either one of two methods: (1) similar to a cumulative effect of a change in accounting principle or (2) retrospective application. The Company assessed the impact of EITF 04-5 as it related to the method of accounting utilized for its investments in Acadia Strategic Opportunity Fund I, LP (Fund I), Acadia Strategic Opportunity Fund II, LLC (Fund II), Acadia Mervyn I, LLC, (Mervyns I) and Mervyn II, LLC (Mervyns II) which were accounted for under the equity method of accounting. The Company determined that these investments should be fully consolidated, effective January 1, 2006 pursuant to EITF 04-5. The Company utilized the retrospective approach in the application of EITF 04-5 and has presented all historical periods prior to 2006 on a consistent basis with 2006 and thereafter. There was no impact on net income or shareholders equity for any of the reported periods in the accompanying consolidated financial statements due to the consolidation of these investments.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

2. BASIS OF PRESENTATION (Continued)

On January 4, 2006, Fund I recapitalized its investment in a one million square foot shopping center portfolio located in Wilmington, Delaware (Brandywine Portfolio). The recapitalization was effected through the conversion of the 78% interest which was previously held by the institutional investors in Fund I to an affiliate of GDC Properties (GDC) through a merger of interests in exchange for cash. The Company has retained its existing 22% interest in the Brandywine Portfolio in partnership with GDC and continues to operate the portfolio and earn fees for such services.

Pursuant to EITF 04-5, the Company has presented the 2005 financial statements to reflect the consolidation of Fund I, including the Brandywine Portfolio which, at the time, was a wholly-owned investment of Fund I. Following the January 2006 recapitalization of the Brandywine Portfolio, the Company no longer has a controlling interest in this investment and, accordingly, currently accounts for this investment under the equity method of accounting.

3. EARNINGS PER COMMON SHARE

Basic earnings per share was determined by dividing the applicable net income to common shareholders for the period by the weighted average number of common shares of beneficial interest (Common Shares) outstanding during each period consistent with Statement of Financial Accounting Standards (SFAS) No. 128 Earnings Per Share . Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted into Common Shares or resulted in the issuance of Common Shares that then shared in the earnings of the Company. The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated.

	Three months ended March 31,	
	2006	**2005**
Numerator:		
Income from continuing operations basic and diluted	$ 4,353	$ 4,445
Denominator:		
Weighted average shares basic earnings per share	32,468	31,867
Effect of dilutive securities:		
Employee stock options	298	273
Denominator for diluted earnings per share	32,766	32,140
Basic earnings per share from continuing operations	$ 0.12	$ 0.13
Diluted earnings per share from continuing operations	$ 0.12	$ 0.13

The effect of the conversion of common units in the Operating Partnership (Common OP Units) is not reflected in the above table as they are exchangeable for Common Shares on a one-for-one basis. The income allocable to such units is allocated on this same basis and reflected as minority interest in the accompanying consolidated financial statements. As such, the assumed conversion of these units would have no net impact on the determination of diluted earnings per share. The effect of the conversion of Series A and B Preferred OP Units (Preferred OP Units) which would result in 337,097 and 522,679 additional Common Shares for the three months ended March 31, 2006 and 2005, respectively, is not reflected in the above table as such conversion would be anti-dilutive.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

4. COMPREHENSIVE INCOME

The following table sets forth comprehensive income for the three months ended March 31, 2006 and 2005:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Net income	$ 4,353	$ 4,445
Other comprehensive income (1)	1,098	2,042
Comprehensive income	$ 5,451	6,487

Notes:

(1) Relates to the changes in the fair value of derivative instruments accounted for as cash flow hedges.

The following table sets forth the change in accumulated other comprehensive income (loss) for the three months ended March 31, 2006:

Balance at December 31, 2005	$ (12)
Unrealized gain on valuation of swap agreements	1,098
Balance at March 31, 2006	$ 1,086

5. SHAREHOLDERS EQUITY AND MINORITY INTERESTS

The following table summarizes the change in the shareholders equity and minority interests since December 31, 2005:

	Shareholders Equity	Minority Interest in Operating Partnership	Minority Interest in partially-owned Partnerships
Balance at December 31, 2005	$ 220,576	$ 9,204	$ 137,061
Dividends and distributions declared of $0.1850 per Common Share and Common OP Unit	(5,977)	(121)	
Net income for the period January 1 through March 31, 2006	4,353	94	931
Distributions paid			(70,569)
Conversion of Series A Preferred OP Units	696	(696)	
Acquisition of partnership interest			2,261
Other comprehensive income Unrealized gain on valuation of swap agreements	989	22	
Other comprehensive income Amortization of swap value	109		
Employee stock-based compensation	1,987		
Balance at March 31, 2006	$ 222,733	$ 8,503	$ 69,684

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

5. SHAREHOLDERS EQUITY AND MINORITY INTERESTS (continued)

Notes:

Minority interest in the Operating Partnership represents (i) the limited partners interest of 653,360 Common OP Units at March 31, 2006 and December 31, 2005, (ii) 188 and 884 Series A Preferred OP Units at March 31, 2006 and December 31, 2005, respectively, with a nominal value of $1,000 per unit, which are entitled to a preferred quarterly distribution of the greater of (a) $22.50 per unit (9% annually) per Series A Preferred OP Unit or (b) the quarterly distribution attributable to a Series A Preferred OP Unit if such unit were converted into a Common OP Unit, and (iii) 4,000 Series B Preferred OP Units at March 31, 2006 and December 31, 2005 with a nominal value of $1,000 per unit, which are entitled to a preferred quarterly distribution of the greater of (a) $13.00 (5.2% annually) per unit or (b) the quarterly distribution attributable to a Series B Preferred OP Unit if such unit were converted into a Common OP Unit.

During the first quarter of 2006, certain holders of 696 Series A Preferred OP Units converted these into Common OP Units and ultimately into Common Shares.

Minority interests in partially-owned partnerships represent third-party interests. During January 2006, Fund I recapitalized the Brandywine Portfolio, and as a result, $35,542 was distributed to the institutional investors in Fund I. During the quarter ended, March 31, 2006, minority interests in Mervyns I and Mervyns II received distributions of $16,297 and $18,195, respectively. During January 2006, the Company acquired a 60% interest in the A&P Shopping Plaza located in Boonton, New Jersey, as discussed in Note 6. The remaining 40% interest is owned by a third party and is reflected as minority interest in the accompanying Consolidated Balance Sheet as of March 31, 2006.

6. PROPERTY ACQUISITIONS

On January 12, 2006, the Company closed on a 19,265 square foot retail building in the Lincoln Park district in Chicago. The property was acquired from an affiliate of Klaff for a purchase price of $9,900, including the assumption of existing mortgage debt in the principal amount of $3,831.

On January 24, 2006, the Company acquired a 60% interest in the A&P Shopping Plaza located in Boonton, New Jersey. The property, which is 100% occupied and located in northeastern New Jersey, is a 63,000 square foot shopping center anchored by a 49,000 square foot A&P Supermarket. A portion of the remaining 40% interest is owned by a principal of P/A Associates, LLC (P/A). The interest was acquired for $3,200. There is existing first mortgage debt of $8,681in the partnership.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

7. INVESTMENTS
A. Investments In and Advances to Unconsolidated Partnerships

	March 31, 2006			
	Mervyns	Brandywine Portfolio	Other Investments	Total
Balance Sheets				
Assets:				
Rental property, net	$	$128,836	$39,891	$168,727
Other assets	40,514	5,524	11,901	57,939
Total assets	$40,514	$134,360	$51,792	$226,666
Liabilities and partners deficit				
Mortgage note payable	$	$91,298	$76,623	$167,921
Other liabilities	72,455	18,501	7,810	98,766
Partners equity (deficit)	(31,941)	24,561	(32,641)	(40,021)
Total liabilities and partners deficit	$40,514	$134,360	$51,792	$226,666
Company s investment in Unconsolidated Partnerships	$2,932	$5,841	$10,408	$19,181
Share of distributions in excess of share of income and investment in unconsolidated partnerships	$	$	$(10,651)	$(10,651)

	Three Months Ended				
	March 31, 2006				March 31, 2005
	Mervyns	Brandywine Portfolio	Others	Total	Others(1)
Statements of Operations					
Total revenue	$259,335	$4,514	$3,088	$266,937	$ 2,709
Operating and other expenses	224,956	1,214	1,327	227,497	675
Interest expense		5,009	1,104	6,113	1,186
Depreciation and amortization	2,817	724	424	3,965	162

$

Net income (loss)	$31,562	$(2,433)	$233	$29,362	$ 686
Company s share of net income	$3,316	$722	$74	$4,112	$ 261

(1) The Brandywine Portfolio was consolidated with Fund I for the three months ended March 31, 2005. There was no Mervyns activity for the three months ended March 31, 2005.

Retailer Controlled Property Venture

On January 27, 2004, the Company entered into the Retailer Controlled Property Venture (RCP Venture) with Klaff Realty, L.P. (Klaff) and Klaff s long-time capital partner Lubert-Adler Management, Inc. for the purpose of making investments in surplus or underutilized properties owned by retailers. On September 2, 2004, affiliates of Fund I and Fund II, through separately organized, newly formed limited liability companies on a non-recourse basis, invested in the acquisition of Mervyns through the RCP Venture, which, as part of an investment consortium of Sun Capital and Cerebus, acquired Mervyns from Target Corporation. The total acquisition price was $1,175,000, with such affiliates combined $23,520 share of the investment divided equally between them. The Company s share of the investment totaled $4,965. For the three months ended March 31, 2006, the Company s share of net income amounted to $3,316.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

7. INVESTMENTS (continued)
A. Investments In and Advances to Unconsolidated Partnerships (continued)

Brandywine Portfolio

On January 4, 2006, the institutional investors of Fund I merged their 78% interest in the Brandywine Portfolio into affiliates of GDC in exchange for cash. The Company merged its 22% share of the Brandywine Portfolio into GDC in exchange for a 22% interest in GDC. Prior to the closing of this transaction, the Company provided $17,558 of mortgage financing secured by certain properties within the Brandywine Portfolio. For the three months ended March 31, 2006, the Company s share of net income of $722 included $1,141 for reimbursement of the Company s share of certain fees incurred by the Brandywine Portfolio by the institutional investors of Fund I.

Fund I Investments

Fund I has joint ventures with third party investors in the ownership and operation of Hitchcock Plaza, Pine Log Plaza, Sterling Heights Shopping Center, Haygood Shopping Center, and Tarrytown Centre. The Hitchcock Plaza, is a 235,000 square foot shopping center located in Aiken, South Carolina. Adjacent to the Hitchcock Plaza, is the 35,000 square foot Pine Log Plaza. Sterling Heights Shopping Center, is a 155,000 square foot community shopping center located in Detroit, Michigan. Haygood Shopping Center is a 162,000 square foot center located in Virginia Beach, Virginia. Lastly, the Tarrytown Centre is located in Westchester, New York. These properties are accounted for under the equity method of accounting.

Crossroads

The Company owns a 49% interest in the Crossroads Joint Venture and Crossroads II Joint Venture (collectively Crossroads), which collectively own a 311,000 square foot shopping center in White Plains, New York. The Company accounts for Crossroads using the equity method of accounting. As of March 31, 2006, the Company s share of distributions in excess of share of income and investment in Crossroads amounted to $10,651.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

7. INVESTMENTS (continued)
B. Preferred Equity Investment

In March of 2005, the Company invested $20,000 in a preferred equity position (Preferred Equity) with Levitz SL, L.L.C. (Levitz SL), the owner of 2.5 million square feet of fee and leasehold interests in 30 locations (the Properties), the majority of which are currently leased to Levitz Furniture Stores. Klaff Realty L.P. (Klaff) is a managing member of Levitz SL. The Preferred Equity receives a return of 10%, plus a minimum return of capital of $2,000 per annum. During March 2006, the rate of return was reset to the six-month LIBOR plus 644 basis points or 11.5%. The Preferred Equity is redeemable at the option of Levitz SL at any time. In October 2005, Levitz Furniture filed for bankruptcy under Chapter 11. The Company has a preferred equity investment of $19,000 at March 31, 2006. This investment was not made based on Levitz remaining as a tenant, but rather based on the underlying value of the real estate, which management believes is sufficient to recover our equity investment and the return attributable thereto. Accordingly, no reserve is required at March 31, 2006. Subsequent to March 31, 2006, the Company received a principal payment of $1,000 and all accrued interest to date of $971.

8. DERIVATIVE FINANCIAL INSTRUMENTS
The following table summarizes the notional values and fair values of the Company s derivative financial instruments as of March 31, 2006. The notional value does not represent exposure to credit, interest rate or market risks.

Hedge Type	Notional Value	Interest Rate	Forward Start Date	Interest Maturity	Fair Value
LIBOR Swap	$36,444	4.35 %	n/a	1/1/11	$1,141
LIBOR Swap	20,000	4.53 %	n/a	10/1/06	52
LIBOR Swap	15,087	4.32 %	n/a	1/1/07	91
LIBOR Swap	11,670	4.11 %	n/a	1/1/07	88
LIBOR Swap	8,693	4.47 %	n/a	6/1/07	66
	$91,894				
LIBOR Swap	$4,640	4.71 %	1/1/10	1/10/11	57
LIBOR Swap	11,410	4.90 %	10/2/06	10/1/11	134
LIBOR Swap	8,434	5.14 %	6/1/07	3/1/12	13
	$24,484				
Interest rate swap receivable					$1,642

The interest rate swap receivable is included in Other Assets in the Consolidated Balance Sheets.

9. MORTGAGE LOANS
Due to the adoption of EITF 04-5 (Note 2), all of the Fund I and Fund II loans are now included as part of the Company s consolidated mortgage indebtedness.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

9. MORTGAGE LOANS (continued)

On January 12, 2006, in conjunction with the purchase of a property, the Company assumed a loan of $3,828 which bears interest at a fixed rate of 8.5%.

On January 18, 2006, Fund II drew down an additional $1,800 on an existing credit facility. As of March 31, 2006, the outstanding balance on this facility was $26,200.

On January 24, 2006, in conjunction with the purchase of a partnership interest, the Company assumed a loan of $8,681 which bears interest at a fixed rate of 6.4%.

On February 22, 2006, the Company financed a property within its existing portfolio for $20,500. This loan bears interest at a fixed rate of 5.4%. A portion of the proceeds was used to pay down $10,900 on an existing credit facility.

On March 27, 2006, the Company refinanced a property for $30,000. This loan bears interest at LIBOR plus 140 basis points. A portion of the proceeds was used to pay down the existing $12,066 of debt on this property.

10. RELATED PARTY TRANSACTIONS

In February 2005, the Company issued $4,000 of Restricted Common OP Units to Klaff for the balance of certain management contract rights as well as the rights to certain potential future revenue streams.

In March 2005, the Company completed a $20,000 Preferred Equity Investment with Levitz SL, of which Klaff, a Common and Preferred OP unit holder, is the managing member. The Company has a preferred equity investment of $19,000 at March 31, 2006 (Note 7).

The Company also earns fees in connection with its rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests in which Klaff has an interest. Net fees earned by the Company in connection with this portfolio were $1,058 and $575 for the three months ended March 31, 2006 and 2005, respectively. The amount is net of the payment of sub-management fees to Klaff of $303 for the three months ended March 31, 2005.

Lee Wielansky, the Lead Trustee of the Company, was paid a consulting fee of $25 for both the three months ended March 31, 2006 and 2005, respectively.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

11. SEGMENT REPORTING

The Company has two reportable segments: retail properties and multi-family properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies as discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. The reportable segments are managed separately due to the differing nature of the leases and property operations associated with the retail versus residential tenants. The following tables set forth certain segment information for the Company for continuing operations as of and for the three months ended March 31, 2006 and 2005 and does not include activity related to unconsolidated partnerships:

	Three months ended March 31, 2006			
	Retail Properties	**Multi-Family Properties**	**All Other**	**Total**
Revenues	$20,227	$2,036	$2,947	$25,210