HOLOGIC INC
Form 10-Q
May 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 24, 2012

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: 0-18281

Hologic, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**04-2902449**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
35 Crosby Drive, Bedford, Massachusetts	**01730**
(Address of principal executive offices)	**(Zip Code)**

(781) 999-7300

(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No x

As of April 25, 2012, 264,576,839 shares of the registrant s Common Stock, $0.01 par value, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

HOLOGIC, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 24, 2012	Three Months Ended March 26, 2011	Six Months Ended March 24, 2012	Six Months Ended March 26, 2011
Revenues:				
Product sales	$ 388,085	$ 360,952	$ 780,181	$ 719,555
Service and other revenues	83,080	77,699	163,695	151,667
	471,165	438,651	943,876	871,222
Costs and expenses:				
Cost of product sales	154,423	131,697	286,367	256,722
Cost of product sales amortization of intangible assets	44,341	44,489	90,512	86,601
Cost of service and other revenues	46,291	41,778	91,517	82,478
Research and development	29,297	29,935	57,639	58,492
Selling and marketing	78,539	70,727	155,999	138,638
General and administrative	41,403	38,803	87,898	79,307
Amortization of intangible assets	16,629	14,552	31,471	29,048
Contingent consideration compensation expense	18,121	1,055	28,562	1,055
Contingent consideration fair value adjustments	43,188	(5,271)	48,310	(4,175)
Gain on sale of intellectual property, net	(12,424)	(84,502)	(12,424)	(84,502)
Litigation settlement charge	440		440	450
Restructuring and divestiture charges	783		692	
	461,031	283,263	866,983	644,114
Income from operations	10,134	155,388	76,893	227,108
Interest income	590	460	1,252	867
Interest expense	(28,512)	(28,185)	(58,021)	(57,094)
Loss on extinguishment of debt	(42,347)		(42,347)	(29,891)
Other income, net	1,527	1,164	3,519	366
(Loss) income before income taxes	(58,608)	128,827	(18,704)	141,356
(Benefit) provision for income taxes	(18,335)	46,382	757	47,971
Net (loss) income	$ (40,273)	$ 82,445	$ (19,461)	$ 93,385
Net (loss) income per common share:				
Basic	$ (0.15)	$ 0.32	$ (0.07)	$ 0.36
Diluted	$ (0.15)	$ 0.31	$ (0.07)	$ 0.35

Weighted average number of shares outstanding:				
Basic	263,900	260,825	263,309	260,224
Diluted	263,900	264,030	263,309	263,588

See accompanying notes.

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HOLOGIC, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share data)

	March 24, 2012	September 24, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 854,561	$ 712,332
Restricted cash	536	537
Accounts receivable, less reserves of $8,625 and $6,516, respectively	326,290	318,712
Inventories	234,372	230,544
Deferred income tax assets	34,333	39,607
Prepaid income taxes	9,774	10,098
Prepaid expenses and other current assets	31,165	31,070
Total current assets	1,491,031	1,342,900
Property and equipment, net	232,023	238,666
Intangible assets, net	1,977,346	2,090,807
Goodwill	2,297,451	2,290,330
Other assets	50,405	46,077
Total assets	$ 6,048,256	$ 6,008,780
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 65,843	$ 63,467
Accrued expenses	404,368	325,327
Deferred revenue	123,611	120,656
Total current liabilities	593,822	509,450
Convertible notes (principal of $1,725,000)	1,527,027	1,488,580
Deferred income tax liabilities	871,606	957,426
Deferred service obligations long-term	12,128	9,467
Other long-term liabilities	64,190	106,962
Commitments and contingencies (Note 6)		
Stockholders equity:		
Preferred stock, $0.01 par value 1,623 shares authorized; 0 shares issued		
Common stock, $0.01 par value 750,000 shares authorized; 264,666 and 262,459 shares issued, respectively	2,647	2,625
Capital in excess of par value	5,361,064	5,303,713
Accumulated deficit	(2,389,381)	(2,369,920)
Accumulated other comprehensive income	6,671	1,995
Treasury stock, at cost 219 shares	(1,518)	(1,518)
Total stockholders equity	2,979,483	2,936,895

Total liabilities and stockholders equity	$ 6,048,256	$ 6,008,780

See accompanying notes.

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HOLOGIC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended	
	March 24, 2012	March 26, 2011
OPERATING ACTIVITIES		
Net (loss) income	$ (19,461)	$ 93,385
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	32,181	33,556
Amortization	121,983	115,649
Non-cash interest expense amortization of debt discount and deferred financing costs	38,881	38,165
Stock-based compensation expense	17,606	19,466
Excess tax benefit related to equity awards	(2,683)	(1,767)
Deferred income taxes	(103,088)	(3,438)
Gain on sale of intellectual property, net	(12,424)	(84,502)
Loss on extinguishment of debt	42,347	29,891
Fair value adjustments to contingent consideration	48,310	(4,175)
Fair value write-up of inventory sold		3,298
Non-cash restructuring charges	15,316	
Impairment of cost-method investment		2,100
Loss on disposal of property and equipment	1,313	1,295
Other non-cash activity	(3,143)	(2,100)
Changes in operating assets and liabilities:		
Accounts receivable	(7,573)	347
Inventories	(11,889)	(24,721)
Prepaid income taxes	324	(8,848)
Prepaid expenses and other assets	(3,574)	(185)
Accounts payable	2,339	2,571
Accrued expenses and other liabilities	50,439	(960)
Deferred revenue	5,631	8,164
Net cash provided by operating activities	212,835	217,191
INVESTING ACTIVITIES		
Acquisition of business, net of cash acquired		(117,728)
Payment of additional acquisition consideration	(9,784)	(19,660)
Divestiture of business, net of cash transferred to the buyer		1,129
Purchase of property and equipment	(14,232)	(14,656)
Increase in equipment under customer usage agreements	(19,325)	(13,031)
Purchase of insurance contracts		(5,322)
Proceeds from sale of intellectual property	12,500	13,250
Purchase of other intangible assets		(3,021)
Purchase of cost-method investment	(250)	(99)
Decrease in restricted cash	1	392
Net cash used in investing activities	(31,090)	(158,746)
FINANCING ACTIVITIES		

Payment of debt issuance costs	(5,822)	(5,327)
Repayments of notes payable		(673)
Payment of contingent consideration	(51,680)	
Net proceeds from issuance of common stock pursuant to employee stock plans	20,389	13,408
Excess tax benefit related to equity awards	2,683	1,767
Payment of employee restricted stock minimum tax withholdings	(5,696)	(10,247)
Net cash used in financing activities	(40,126)	(1,072)
Effect of exchange rate changes on cash and cash equivalents	610	(80)
Net increase in cash and cash equivalents	142,229	57,293
Cash and cash equivalents, beginning of period	712,332	515,625
Cash and cash equivalents, end of period	$ 854,561	$ 572,918

See accompanying notes.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(all tabular amounts in thousands except per share data)

(1) Basis of Presentation

The consolidated financial statements of Hologic, Inc. (the Company) presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and disclosures required by U.S. generally accepted accounting principles. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended September 24, 2011, included in the Company s Form 10-K filed with the Securities and Exchange Commission on November 23, 2011. In the opinion of management, the financial statements and notes contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company s financial position, results of operations and cash flows for the periods presented.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management s estimates if past experience or other assumptions do not turn out to be substantially accurate. Operating results for the three and six months ended March 24, 2012 are not necessarily indicative of the results to be expected for any other interim period or the entire fiscal year ending September 29, 2012. Fiscal 2012 is a 53 week fiscal period.

During the fourth quarter of fiscal 2011, the Company reclassified compensation expense related to its Interlace Medical, Inc. (Interlace) acquisition from cost of product sales, research and development, selling and marketing and general administrative to a separate line item in its Consolidated Statements of Operations, contingent consideration compensation expense . For the three months ended March 26, 2011, the aggregate amount of this reclassification was $1.1 million.

Subsequent Events Consideration

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence for certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated as required. There were no material recognized subsequent events recorded in the unaudited consolidated financial statements as of and for the three and six months ended March 24, 2012.

(2) Fair Value Measurements

The Company applies the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for its financial assets and liabilities that are re-measured and reported at fair value each reporting period and its nonfinancial assets and liabilities that are re-measured and reported at fair value on a non-recurring basis. Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

Fair Value Hierarchy

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. Financial assets and liabilities are categorized within the valuation hierarchy based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy are defined as follows:

Level 1 Inputs to the valuation methodology are quoted market prices for identical assets or liabilities.

Level 2 Inputs to the valuation methodology are other observable inputs, including quoted market prices for similar assets or liabilities and market-corroborated inputs.

Level 3 Inputs to the valuation methodology are unobservable inputs based on management s best estimate of inputs market participants would use in pricing the asset or liability at the measurement date, including assumptions about risk.

Assets/Liabilities Measured and Recorded at Fair Value on a Recurring Basis

As of March 24, 2012 and September 24, 2011, the Company s financial assets that are re-measured at fair value on a recurring basis included $0.3 million in money market mutual funds in both periods that are classified as cash and cash equivalents in the Consolidated Balance Sheets. Money market funds are classified within Level 1 of the fair value hierarchy and are valued using

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quoted market prices for identical assets. The Company has a payment obligation under its Nonqualified Deferred Compensation Plan (DCP) to the participants of the DCP. This liability is recorded at fair value based on the underlying value of certain hypothetical investments as designated by each participant for their benefit. Since the value of the DCP obligation is based on market prices, the liability is classified within Level 1. In addition, the Company has contingent consideration liabilities related to its acquisitions that are recorded at fair value. The fair values of these liabilities are based on Level 3 inputs and are discussed in Notes 3 and 6(a).

Assets and liabilities measured and recorded at fair value on a recurring basis consisted of the following at March 24, 2012:

		Fair Value at Reporting Date Using		
	Balance as of March 24, 2012	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 314	$ 314	$	$
Total	$ 314	$ 314	$	$
Liabilities:				
DCP liability	$ 24,833	$ 24,833	$	$
Contingent consideration	96,212			96,212
Total	$ 121,045	$ 24,833	$	$ 96,212

The Company has classified its contingent consideration liabilities related to its acquisitions of Sentinelle Medical and Interlace within Level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs. A reconciliation of the beginning and ending Level 3 liabilities is as follows:

	Three Months Ended		Six Months Ended	
	March 24, 2012	March 26, 2011	March 24, 2012	March 26, 2011
Balance at beginning of period	$ 104,807	$ 30,596	$ 103,790	$ 29,500
Contingent consideration liabilities recorded at acquisition		86,600		86,600
Changes in fair value recorded to operating expenses	43,188	(5,271)	48,310	(4,175)
Payments	(51,783)		(55,888)	
Balance at end of period	$ 96,212	$ 111,925	$ 96,212	$ 111,925

Payments of contingent consideration include amounts withheld from the former shareholders of Interlace pursuant to certain legal indemnification provisions and paid to other third-parties.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company remeasures the fair value of certain assets and liabilities upon the occurrence of certain events. Such assets comprise cost-method equity investments and long-lived assets, including property and equipment, intangible assets and goodwill.

The Company holds certain cost-method equity investments in non-publicly traded securities aggregating $4.9 million and $4.6 million at March 24, 2012 and September 24, 2011, respectively, which are included in other long-term assets on the Company s Consolidated Balance Sheets. These investments are generally carried at cost. As the inputs utilized for the Company s periodic impairment assessment are not based on observable market data, these cost method investments are classified within Level 3 of the fair value hierarchy. To determine the fair value of these investments, the Company uses all available financial information related to the entities, including information based on recent or pending third-party equity investments in these entities. In certain instances, a cost method investment s fair value is not estimated as there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment and to do so would be impractical. During the first quarter of fiscal 2011, the Company recorded an other-than-temporary impairment charge of $2.1 million related to one of these investments.

Refer to Note 5 for disclosure of the nonrecurring fair value measurement related to the loss on extinguishment of debt recorded in the second quarter of fiscal 2012 and the first quarter of fiscal 2011. Refer to Note 14 for disclosure of the nonrecurring fair value measurement related to the impairment charge of manufacturing equipment and equipment located at customer sites recorded in the second quarter of fiscal 2012.

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Disclosure of Fair Value of Financial Instruments

The Company s financial instruments mainly consist of cash and cash equivalents, accounts receivable, cost-method equity investments, insurance contracts and related DCP liability, accounts payable and debt obligations. The carrying amounts of the Company s cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these instruments. The carrying amount of the insurance contracts are recorded at the cash surrender value, as required by U.S. generally accepted accounting principles, which approximates fair value, and the related DCP liability is recorded at fair value. The Company believes the carrying amounts of its cost-method investments approximate fair value and has not performed an in-depth analysis of the fair values as it is not practical to do so.

The Company had $1.53 billion and $1.49 billion of Convertible Notes recorded (See Note 5) as of March 24, 2012 and September 24, 2011, respectively. The aggregate principal amount of the Convertible Notes at both periods was $1.725 billion. On February 29, 2012, the Company entered into separate, privately-negotiated exchange agreements under which it retired $500.0 million in aggregate principal of its 2007 Notes for $500.0 million in aggregate principal of new 2.00% Convertible Senior Notes due 2042 (2012 Notes). Subsequent to this transaction, the Company has three issues of Convertible Notes outstanding: 2007 Notes (principal of $775.0 million), 2010 Notes (principal of $450.0 million), and the 2012 Notes (principal of $500.0 million). The fair value of the 2007 Notes, 2010 Notes and 2012 Notes as of March 24, 2012 was approximately $770.7 million, $524.7 million and $502.6 million, respectively. The fair value of the 2007 Notes and 2010 Notes as of September 24, 2011 was approximately $1.20 billion and $468.7 million, respectively. The fair value of the Convertible Notes is based on quoted trading prices and represents a Level 1 measurement.

(3) Business Combinations

Gen-Probe Incorporated

On April 29, 2012, the Company entered into an Agreement and Plan of Merger (Merger Agreement) to acquire Gen-Probe Incorporated (Gen-Probe). Subject to the terms and conditions of the Merger Agreement, at the effective time and as a result of the merger, each share of common stock of Gen-Probe issued and outstanding immediately prior to the effective time of the merger will be cancelled and converted into the right to receive $82.75 in cash. The Company anticipates that the total consideration to be paid, including the assumption of outstanding indebtedness of Gen-Probe less cash assumed, will be approximately $3.7 billion, and that the transaction will be funded through available cash and additional financing of term loans, a revolving credit facility and additional loans and/or notes. The Company also entered into a firm debt commitment letter with Goldman Sachs Bank USA and Goldman Sachs Lending Partners LLC, dated April 29, 2012. The transaction is expected to be completed in the second half of calendar 2012 and is subject to the satisfaction of customary closing conditions, including approval by Gen-Probe s shareholders and termination or expiration of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and under any similar foreign statutes and regulations applicable to the merger. If the merger fails to close as a result of the financing not being available, the Company may be required to pay Gen-Probe a financing failure fee of $200 million, which will serve as liquidating damages and shall be Gen-Probe s sole and exclusive remedy for such failure.

Gen-Probe, headquartered in San Diego, California, is a leader in molecular diagnostics products and services that are used primarily to diagnose human diseases, screen donated human blood, and ensure transplant compatibility.

TCT International Co., Ltd.

On June 1, 2011, the Company completed the acquisition of 100% of the equity interest in TCT International Co., Ltd. (TCT) and subsidiaries, a privately-held distributor of medical products, including the Company s ThinPrep Pap Test, related instruments and other diagnostic and surgical products. TCT s operating subsidiaries are located in Beijing, China. The Company s acquisition of TCT has enabled it to obtain an established nationwide sales organization and customer support infrastructure in China, which is consistent with the Company s international expansion strategy. TCT has been integrated within the Company s international operations, and its results are primarily reported within the Company s Diagnostics reporting segment and to a lesser extent within the Company s GYN Surgical reporting segment from the date of acquisition. The Company concluded that the acquisition of TCT did not represent a material business combination, and therefore, no pro forma financial information has been provided herein.

The preliminary purchase price of $148.6 million is comprised of $135.0 million in cash, of which $100.0 million was paid up-front and $35.0 million plus a working capital adjustment, which has been preliminarily estimated to be $13.4 million, are deferred for one year. In addition, $0.9 million was paid in the first quarter of fiscal 2012 for additional assets acquired. This amount may be subject to further adjustment. The deferred payment has been recorded on a present value basis of $47.6 million in purchase accounting to reflect fair value and such payment is being accreted through interest expense over this one year period. In addition, the majority of the former shareholders of TCT may receive two annual contingent earn-out payments (subject to adjustment) not to exceed $200.0 million less the deferred payment. The contingent earn-out payments are based on a multiple of incremental revenue growth for the one year periods beginning January 1, 2011 and January 1, 2012 as compared to the respective prior year periods, and are payable after the first and second anniversaries from the date of acquisition, respectively. Since these payments are contingent on future employment, they are being recognized as compensation expense ratably over the required service periods, the first and second year anniversaries from the date of acquisition. Based on its revenue projections for the TCT business, the Company recorded compensation expense of $17.5 million and $27.5 million for the three and six month periods ended March 24, 2012, respectively. As of March 24, 2012, the Company has accrued $45.1 million for these contingent payments.

The Company did not issue any equity awards in connection with this acquisition. The Company incurred third-party transaction costs of $1.3 million, which were expensed within general and administrative expenses primarily in fiscal 2011.

The allocation of purchase consideration to assets and liabilities is not yet finalized. The allocation of the preliminary purchase price was based on preliminary estimates of the fair value of assets acquired and liabilities assumed as of June 1, 2011 and these estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The Company is continuing to obtain information to determine the fair value of certain acquired assets and liabilities, including tax assets and liabilities. The components of the preliminary purchase price allocation are as follows:

Cash	$ 27,961
Accounts receivable	17,773
Inventory	5,197
Property and equipment	4,802
Other tangible assets	1,082
Accrued taxes	(14,399)
Accounts payable and accrued expenses	(7,082)
Customer relationships	45,780
Business licenses	2,500
Trade names	2,110
Deferred taxes, net	(12,493)
Goodwill	75,389
Purchase Price	$ 148,620

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As part of the preliminary purchase price allocation, the Company determined that the separately identifiable intangible assets were customer relationships, business licenses, and trade names related to the TCT company name. The fair value of the intangible assets was determined through the application of the income approach, and the cash flow projections were discounted at 12.5%. Customer relationships relate to relationships that TCT s founders and sales force have developed with obstetricians, gynecologists, hospitals, and clinical laboratories. Customer relationships, business licenses and trade names are being amortized over a weighted average period of 12.7 years, 10 years and 12 years, respectively. The excess of the purchase price over the fair value of the tangible net assets and intangible assets acquired was recorded to goodwill. The goodwill recognized is attributable to the established sales and distribution network of TCT and expected synergies that the Company will realize from this acquisition. None of the goodwill is expected to be deductible for income tax purposes.

Interlace Medical, Inc.

On January 6, 2011, the Company consummated the acquisition of 100% of the equity interest in Interlace, a privately-held company located in Framingham, Massachusetts. Interlace is the developer, manufacturer and supplier of the MyoSure hysteroscopic tissue removal system (MyoSure). The MyoSure system is a new and innovative tissue removal device that is designed to provide incision-less removal of fibroids and polyps within the uterus. Interlace s operations are reported within the Company s GYN Surgical reporting segment from the date of acquisition. The Company believes that MyoSure is a complementary product to its existing surgical product portfolio. The Company concluded that the acquisition of Interlace did not represent a material business combination, and therefore, no pro forma financial information has been provided herein.

The purchase price was comprised of $126.8 million in cash (Initial Consideration), which was net of certain adjustments, plus two annual contingent payments up to a maximum of an additional $225.0 million in cash. In addition to the Initial Consideration, $2.1 million was paid to certain employees upon the completion of three and six months of service from the date of acquisition. Since these payments were contingent on future employment, they were recognized as compensation expense in fiscal 2011. The purchase agreement includes an indemnification provision that provides for the reimbursement of a portion of legal expenses in defense of the Interlace intellectual property. The Company has the right to collect certain amounts set aside in escrow from the Initial Consideration and, as applicable, offset contingent consideration payments of qualifying legal costs.

The contingent payments are based on a multiple of incremental revenue growth during a two-year period following the completion of the acquisition. Pursuant to ASC 805, *Business Combinations*, the Company recorded its estimate of the fair value of the contingent consideration liability based on future revenue projections of the Interlace business under various potential scenarios and weighted probability assumptions of these outcomes. As of the date of acquisition, these cash flow projections were discounted using a rate of 15.6%. The discount rate is based on the weighted-average cost of capital of the acquired business plus a credit risk premium for non-performance risk related to the liability pursuant to ASC 820. This analysis resulted in an initial contingent consideration liability of $86.6 million, which is adjusted periodically as a component of operating expenses based on changes in fair value of the liability driven by the accretion of the liability for the time value of money and changes in the assumptions pertaining to the achievement of the defined revenue growth milestones. This fair value measurement was based on significant inputs not observable in the market and thus represented a Level 3 measurement as defined in ASC 820. This fair value measurement is directly impacted by the Company s estimate of future incremental revenue growth of the business. Accordingly, if actual revenue growth is higher or lower than the estimates within the fair value measurement, the Company would record additional charges or benefits, respectively, as appropriate. The Company recorded charges of $42.9 million and $48.5 million for the three and six month periods ended March 24, 2012, respectively, and $2.7 million for the three and six month periods ended March 26, 2011 for changes in fair value of the contingent consideration liability. The fair value of the contingent consideration for the first measurement period was $51.8 million. This payment was disbursed during the second quarter of fiscal 2012 of which $47.6 million is reflected in the Consolidated Statements of Cash Flows as cash used in financing activities, representing the liability recognized at fair value for the first measurement period as of the acquisition date. The remainder, which is related to changes in the fair value of the liability, is reflected within cash provided by operating activities. As of March 24, 2012, the Company has accrued $89.6 million for the second measurement period contingent payment.

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The Company did not issue any equity awards in connection with this acquisition. The Company incurred third-party transaction costs of $0.4 million, which were expensed within general and administrative expenses in fiscal 2011.

The purchase price is as follows:

Cash	$ 126,798
Contingent consideration	86,600
Total purchase price	$ 213,398

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The allocation of the purchase price was based on estimates of the fair value of assets acquired and liabilities assumed as of January 6, 2011. The components of the purchase price allocation are as follows:

Cash	$ 9,070
Inventory, including fair value adjustments	1,795
Other tangible assets	1,291
Accounts payable and accrued expenses	(1,988)
Developed technology	158,741
Trade names	1,750
Deferred taxes, net	(45,342)
Goodwill	88,081
Purchase Price	$ 213,398

As part of the purchase price allocation, the Company determined that the separately identifiable intangible assets were developed technology and trade names related to the MyoSure product name. The fair value of the intangible assets was determined through the application of the income approach, and the cash flow projections were discounted at 12.7%. Developed technology represented currently marketable Interlace products that the Company will continue to sell and utilize to enhance and incorporate into the Company s existing products. In determining the fair value of developed technology, consideration was only given to products that had been approved by the FDA. Based on the early stage of other projects and an insignificant allocation of resources to those projects, the Company concluded that there were no in-process projects of a material nature. Developed technology and trade names are being amortized over 15 years and 13 years, respectively. The excess of the purchase price over the fair value of the tangible net assets and intangible assets acquired was recorded to goodwill. The goodwill recognized is attributable to expected synergies that the Company will realize from this acquisition. None of the goodwill is expected to be deductible for income tax purposes.

Beijing Healthcome Technology Company, Ltd.

On July 19, 2011, the Company completed its acquisition of 100% of the equity in Beijing Healthcome Technology Company, Ltd. (Healthcome), a privately-held manufacturer of medical equipment, including mammography equipment, located in Beijing, China. Healthcome manufactured analog mammography products targeted to lower tier hospital segments in China. Additionally, Healthcome had been collaborating with the Company s research and development team to integrate its selenium detector technology into the Healthcome mammography platform. On December 21, 2011 the Company received SFDA approval in China for its Serenity digital mammography system. This acquisition provides the Company with manufacturing capability in China and additional access to the Chinese markets. The purchase price was $9.8 million in cash, subject to adjustment. In addition, the Company is obligated to make future payments to the shareholders, who remain employed, up to an additional $7.1 million over three years. Since these payments are contingent on future employment, they will be recognized as compensation expense ratably over the respective service periods. The Company recorded compensation expense of $0.6 million and $1.0 million in the three and six month periods ended March 24, 2012, respectively. Healthcome s operations are reported within the Company s Breast Health reporting segment from the date of acquisition.

As part of the preliminary purchase price allocation, the Company determined that the separately identifiable intangible assets were developed technology of $3.3 million, in-process research and development of $0.9 million, and trade names of $0.2 million. The in-process research and development project was completed in the first quarter of fiscal 2012. The Company is continuing to obtain information pertaining to certain acquired assets and liabilities, including tax assets and liabilities. The fair value of the intangible assets was determined through the application of the income approach, and the cash flow projections were discounted using rates ranging from 27% to 30%. Developed technology and trade names are being amortized over their useful lives of 13 and 7 years, respectively. The excess of the purchase price over the fair value of the tangible net assets and intangible assets acquired of $6.8 million was recorded to goodwill. The goodwill recognized is attributable to expected synergies that the Company will realize from this acquisition. None of the goodwill is expected to be deductible for income tax purposes.

(4) Other Balance Sheet Information

	March 24, 2012	September 24, 2011

Inventories		
Raw materials	$ 116,388	$ 113,612
Work-in-process	31,492	30,217
Finished goods	86,492	86,715
	$ 234,372	$ 230,544

	March 24, 2012	September 24, 2011
Property and equipment		
Equipment and software	$ 231,777	$ 223,403
Equipment under customer usage agreements	185,318	172,614
Building and improvements	59,842	58,937
Leasehold improvements	43,981	43,554
Furniture and fixtures	12,654	12,401
Land	8,863	8,883
	542,435	519,792
Less accumulated depreciation and amortization	(310,412)	(281,126)
	$ 232,023	$ 238,666

(5) Convertible Notes

On December 10, 2007, the Company issued and sold $1.725 billion, at par, of 2.00% Convertible Senior Notes due 2037 (the 2007 Notes). Net proceeds from the offering were $1.69 billion, after deducting the underwriters discounts and offering expenses, and were used to repay certain of the Company s outstanding senior secured indebtedness incurred in connection with the merger with Cytyc in fiscal 2008. The Company has recorded the Convertible Notes net of the unamortized debt discount as required by U.S. generally accepted accounting principles. On November 18, 2010, the Company entered into separate, privately-negotiated exchange agreements under which it retired $450.0 million in aggregate principal of its 2007 Notes for $450.0 million in aggregate principal of new 2.00% Convertible Exchange Senior Notes due 2037 (2010 Notes). In connection with this exchange transaction, the Company recorded a loss on extinguishment of debt of $29.9 million in the first quarter of fiscal 2011. For additional information pertaining to the terms and provisions and related accounting for the 2007 Notes and 2010 Notes, refer to Note 5 to the consolidated financial statements contained in Item 15 of the Annual Report on Form 10-K for the year ended September 24, 2011.

On February 29, 2012, the Company entered into separate, privately-negotiated exchange agreements under which it retired $500.0 million in aggregate principal of the 2007 Notes for $500.0 million in aggregate principal of new 2.00% Convertible Senior Notes due 2042 (2012 Notes). In connection with this exchange transaction, the Company recorded a loss on extinguishment of debt of $42.3 million in the second quarter of fiscal 2012. Following this transaction, $775.0 million in principal amount of the 2007 Notes remain outstanding.

Holders may require the Company to repurchase the 2012 Notes on any of March 1, 2018, March 1, 2022, March 1, 2027, March 1, 2032 and March 2, 2037 or upon a fundamental change, as provided in the indenture for the 2012 Notes, at a repurchase price equal to 100% of their accreted principal amount, plus accrued and unpaid interest. The Company may redeem any of the 2012 Notes beginning March 6, 2018, by giving holders at least 30 days notice. The Company may redeem the 2012 Notes either in whole or in part at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest, including contingent interest and liquidated damages, if any, to, but excluding, the redemption date.

The 2012 Notes bear interest at a rate of 2.00% per year on the principal amount, payable semi-annually in arrears in cash on March 1 and September 1 of each year, beginning September 1, 2012, and ending on March 1, 2018 and will accrete principal from March 1, 2018 at a rate that provides holders with an aggregate annual yield to maturity of 2.00% per year. Beginning with the six month interest period commencing March 1, 2018, the Company will pay contingent interest during any six month interest period to the holders of 2012 Notes if the trading price , as defined, of the 2012 Notes for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six month interest period equals or exceeds 120% of the accreted principal amount of the 2012 Notes. The holders of the 2012 Notes may convert the 2012 Notes into shares of the Company s common stock at a conversion price of $31.175 per share, subject to adjustment, prior to the close of business on March 1, 2042, subject to prior redemption or repurchase of the 2012 Notes, under any of the following circumstances: (1) during any calendar quarter if the last reported sale price of the Company s common stock exceeds 130% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding calendar quarter; (2) during the five business day period after any five consecutive trading day period in which the trading price per note for each day of such period was less than 98% of the product of the last reported sale price of the Company s common stock and the conversion rate on each such day; (3) if the 2012 Notes have been called for redemption; or (4) upon the occurrence of specified corporate events. None of these triggering events had occurred as of March 24, 2012.

In lieu of delivery of shares of the Company s common stock in satisfaction of the Company s obligation upon conversion of the 2012 Notes, the Company may elect to deliver cash or a combination of cash and shares of its common stock. If the Company elects to satisfy its conversion obligation solely in cash, the Company is required to deliver cash in an amount as provided in the indenture for the 2012 Notes. If the Company elects to satisfy its conversion obligation in a combination of cash and shares of the Company s common stock, the Company is required to deliver up to a specified dollar amount of cash per $1,000 original principal amount of 2012 Notes, and will settle the remainder of its conversion obligation in shares of its common stock, in each case based on the daily conversion value calculated as provided in the indenture for the 2012 Notes. In addition, at any time on or prior to the 35th scheduled trading day prior to the maturity date of the 2012 Notes, the Company may make an irrevocable election to settle conversions of the 2012 Notes either solely in cash or in a combination of cash and shares of our common stock with a specified cash amount at least equal to the accreted principal amount of the 2012 Notes. This net share settlement election is in the Company s sole discretion and does not require the consent of holders of the 2012 Notes. It is the Company s current intent and policy to settle any conversion of the 2012 Notes as if the Company had elected to make this net share settlement election.

The 2012 Notes are the Company s senior unsecured obligations and rank equally with all of its existing and future senior unsecured debt and prior to all future subordinated debt. The 2012 Notes are effectively subordinated to any future secured indebtedness to the extent of the collateral securing such indebtedness, and structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

Accounting for the Convertible Notes

The 2007 Notes, 2010 Notes and 2012 Notes were recorded pursuant to FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1)(codified within ASC 470, *Debt*) since they can be settled in cash, or partially in cash, upon conversion. FSP APB 14-1 requires the liability and equity components of the convertible debt instrument to be separately accounted for in a manner that reflects the entity s nonconvertible debt borrowing rate when interest expense is subsequently recognized. The excess of the debt s principal amount over the amount allocated to the liability component is recognized as the value of the embedded conversion feature (equity component) within additional-paid-in capital in stockholders equity and amortized to interest expense using the effective interest method. The liability component is initially recorded at its fair value, which is calculated using a discounted cash flow technique. Key inputs used to estimate the fair value of the liability component included the Company s estimated nonconvertible debt borrowing rate as of the measurement date (i.e. the date the Convertible Notes are issued), the amount and timing of cash flows, and the expected life of the Convertible Notes. In addition, third-party transaction costs are required to be allocated to the liability and equity components based on their relative values.

The Company accounted for the retirement of the 2007 Notes, discussed above, under the derecognition provisions of subtopic ASC 470-20-40, which requires the allocation of the fair value of the consideration transferred (i.e., the 2012 Notes) between the liability and equity components of the original instrument to determine the gain or loss on the transaction. In connection with this transaction, the Company recorded a loss on extinguishment of debt of $42.3 million, which is comprised of the loss on the debt itself of $39.7 million and the write-off of the pro-rata amount of debt issuance costs of $2.6 million allocated to the notes retired. The loss on the debt itself is calculated as the difference between the fair value of the liability component of the 2007 Notes amount retired immediately before the exchange and its related carrying value immediately before the exchange.

The fair value of the liability component was calculated using a discounted cash flow technique with an effective interest rate of 2.89%, representing the estimated nonconvertible debt borrowing rate with a maturity as of the measurement date consistent with the 2007 Notes first put date of December 2013. In addition, under this accounting standard, a portion of the fair value of the consideration transferred is allocated to the reacquisition of the equity component, which is the difference between the fair value of the consideration transferred and the fair value of the liability component immediately before the exchange. As a result, on a gross basis, $41.6 million was allocated to the reacquisition of the equity component of the original instrument, which is recorded net of deferred taxes within capital in excess of par value.

The 2012 Notes have the same characteristics as the 2007 Notes and 2010 Notes and can be settled in cash or a combination of cash and shares of common stock (i.e., partial settlement). As such, the Company is required to account for the liability and equity components of its 2012 Notes separately to reflect its nonconvertible debt borrowing rate. The Company estimated the fair value of the 2012 Notes liability component to be $454.2 million using a discounted cash flow technique with an estimated effective interest rate of 3.72%, representing the estimated nonconvertible debt borrowing rate with a maturity as of the measurement date consistent with the 2012 Notes first put date of March 2018.

The excess of the fair value of the consideration transferred, which was estimated using a binomial lattice model, over the estimated fair value of the liability component of $79.7 million was allocated to the embedded conversion feature as an increase to capital in excess of par value with a corresponding offset recognized as a discount to reduce the net carrying value of the 2012 Notes. The net debt discount of the 2012 Notes is being amortized to interest expense over a six-year period ending March 1, 2018 (the expected life of the liability component) using the effective interest method. In addition, third-party transaction costs have been allocated to the liability and equity components based on the relative values of these components.

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As of March 24, 2012 and September 24, 2011, the Convertible Notes and related equity components (recorded in capital in excess of par value, net of deferred taxes) consisted of the following:

	March 24, 2012	September 24, 2011
2007 Notes principal amount	$ 775,000	$ 1,275,000
Unamortized discount	(70,785)	(147,287)
Net carrying amount	$ 704,215	$ 1,127,713
Equity component, net of taxes	$ 233,353	$ 259,000
2010 Notes principal amount	$ 450,000	$ 450,000
Unamortized discount	(81,862)	(89,133)
Net carrying amount	$ 368,138	$ 360,867
Equity component, net of taxes	$ 60,054	$ 60,054
2012 Notes principal amount	$ 500,000	$
Unamortized discount	(45,326)	
Net carrying amount	$ 454,674	$
Equity component, net of taxes	$ 49,195	$

Interest expense under the Convertible Notes is as follows:

	Three Months Ended		Six Months Ended	
	March 24, 2012	March 26, 2011	March 24, 2012	March 26, 2011
Amortization of debt discount	$ 17,946	$ 17,750	$ 36,899	$ 36,209
Amortization of deferred financing costs	975	944	1,982	1,956
Non-cash interest expense	18,921	18,694	38,881	38,165
2.00% accrued interest	8,567	8,625	17,145	17,230
	$ 27,488	$ 27,319	$ 56,026	$ 55,395

If the Company fails to comply with the reporting obligations contained in the Convertible Notes agreements, the sole remedy of the holders of the Convertible Notes for the first 90 days following such event of default consists exclusively of the right to receive an extension fee in an amount equal to 0.25% of the accreted principal amount of the Convertible Notes. Based on the Company s evaluation of the Convertible Notes in accordance with ASC 815, *Derivatives and Hedging*, Subtopic 40, *Contracts in Entity s Own Equity*, the Company determined that the Convertible Notes contain a single embedded derivative, comprising both the contingent interest feature and the filing failure penalty payment, requiring bifurcation as the features are not clearly and closely related to the host instrument. The Company has determined that the value of this embedded derivative was nominal for all periods presented.

As of March 24, 2012, upon conversion, including the potential premium that could be payable on a fundamental change (as defined), the Company would issue a maximum of approximately 75.6 million common shares to the Convertible Note holders.

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(6) Commitments and Contingencies

(a) Contingent Earn-Out Payments

In connection with its acquisitions, the Company has incurred the obligation to make contingent earn-out payments tied to performance criteria, principally revenue growth of the acquired businesses over a specified period. In certain circumstances, such as a change of control, a portion of these obligations may be accelerated. In addition, contractual provisions relating to these contingent earn-out obligations may include covenants to operate the businesses acquired in a manner that may not otherwise be most advantageous to the Company.

These contingent consideration arrangements are recorded as either additional purchase price or compensation expense if continuing employment is required to receive such payments. Pursuant to ASC 805, contingent consideration that is deemed to be part of the purchase price is recorded as a liability based on the estimated fair value of the consideration the Company expects to pay to the former shareholders of the acquired business as of the acquisition date. This liability is re-measured each reporting period with the changes in fair value recorded through a separate line item within the Company s Consolidated Statements of Operations. Increases or decreases in the fair value of contingent consideration liabilities can result from accretion of the liability for the passage of time, changes in discount rates, and changes in the timing, probabilities and amount of revenue estimates. Contingent consideration arrangements from acquisitions completed prior to the adoption of ASC 805 (effective in fiscal 2010 for the Company) that are deemed to be part of the purchase price of the acquisition are not subject to the fair value measurement requirements of ASC 805 and are recorded as additional purchase price to goodwill.

In connection with the acquisition of Adiana, Inc., the Company has an obligation to the former Adiana shareholders to make contingent payments tied to the achievement of milestones. The milestone payments include potential contingent payments of up to $155.0 million based on worldwide sales of the Adiana Permanent Contraception System in the first year following FDA approval and on annual incremental sales growth thereafter through December 31, 2012. FDA approval of the Adiana system occurred on July 6, 2009, and the Company began accruing contingent consideration in the fourth quarter of fiscal 2009 based on the defined percentage of worldwide sales of the product. Since this contingent consideration obligation arose from an acquisition prior to the adoption of ASC 805, the amounts accrued are recorded as additional purchase price to goodwill. The purchase agreement includes an indemnification provision that provides for the reimbursement of qualifying legal expenses and liabilities associated with legal claims against the Adiana products and intellectual property, and the Company has the right to offset contingent consideration payments to the Adiana shareholders with these qualifying legal costs. The Company has been in litigation with Conceptus regarding certain intellectual property matters related to the Adiana system, and to the extent available, the Company has been recording legal fees related to the Conceptus litigation matter (described below) as a reduction to the accrued contingent consideration payments. The Company made payments of $8.8 million and $19.7 million in the first quarter of fiscal 2012 and 2011, respectively, to the former Adiana shareholders, net of amounts withheld for the legal indemnification provision. No contingent consideration has been earned and recorded through the first two quarters of fiscal 2012 as there has been no incremental revenue growth of the Adiana system in the current measurement period. On October 17, 2011, the jury returned a verdict in the Conceptus litigation matter (see below) in favor of Conceptus awarding damages in the amount of $18.8 million. On April 29, 2012, the Company entered into a license and settlement agreement with Conceptus in which Conceptus agreed to forgo the $18.8 million jury award in consideration of the Company agreeing to a permanent injunction against the manufacture, sale and distribution of the Adiana product. At March 24, 2012, the Company has accrued $18.8 million for the payment of contingent consideration to the former Adiana shareholders.

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In connection with the acquisition of Sentinelle Medical (acquired in the fourth quarter of fiscal 2010), the purchase agreement includes three contingent payments up to a maximum of an additional $250.0 million in cash. The contingent payments are based on a multiple of incremental revenue growth during the two-year period following the completion of the acquisition as follows: six months after acquisition, 12 months after acquisition, and 24 months after acquisition. Pursuant to ASC 805, the Company recorded its estimate of the fair value of the contingent consideration liability based on future revenue projections of the Sentinelle Medical business under various potential scenarios and weighted probability assumptions of these outcomes. As of the date of acquisition, these cash flow projections were discounted using a rate of 16.5%. This analysis resulted in an initial contingent consideration liability of $29.5 million. Each quarter, the Company re-evaluates its assumptions, including the revenue and probability assumptions for future earn-out periods, which has resulted in lower revenue projections. As a result of these adjustments, which were partially offset by the accretion of the liability, and using a current discount rate of approximately 17.0%, the Company recorded a reversal of expense of $14.3 million in fiscal 2011 to record the contingent consideration liability at its estimated fair value. The first two earn-out periods have lapsed, and the Company made payments of $4.1 million and $4.3 million in fiscal 2012 and 2011, respectively. At March 24, 2012, the fair value of this liability is $6.6 million.

The Company also has contingent consideration obligations related to its Interlace, TCT and Healthcome acquisitions. Pursuant to ASC 805, contingent consideration pertaining to Interlace is required to be recorded as a liability at fair value and was $89.6 million as of March 24, 2012. During the second quarter of fiscal 2012, the first measurement period lapsed resulting in a total contingent consideration amount recorded for this period of $51.8 million, which was disbursed to the former shareholders of Interlace, net of amounts withheld for certain legal indemnification purposes. In connection with the Interlace acquisition, $2.1 million of the initial consideration was recorded as compensation expense and paid in fiscal 2011 and no further amounts of contingent consideration will be recorded as compensation expense related to this acquisition. Contingent consideration pertaining to TCT and Healthcome is contingent upon future employment and is being recorded as compensation expense as it is earned, and this liability at March 24, 2012 aggregated $46.5 million. For additional information pertaining to the Interlace, TCT and Healthcome acquisitions, contingent consideration terms and the assumptions used to fair value contingent consideration, refer to Note 3.

A summary of amounts recorded to the Consolidated Statements of Operations is as follows:

Statement of Operations Line Item - 3 Months Ended March 24, 2012	**Sentinelle Medical**	**Interlace**	**TCT**	**Healthcome**	**Total**
Contingent consideration compensation expense	$	$	$ 17,527	$ 594	$ 18,121
Contingent consideration fair value adjustments	258	42,930			43,188
	$ 258	$ 42,930	$ 17,527	$ 594	$ 61,309

Statement of Operations Line Item - 6 Months Ended March 24, 2012	**Sentinelle Medical**	**Interlace**	**TCT**	**Healthcome**	**Total**
Contingent consideration compensation expense	$	$	$ 27,539	$ 1,023	$ 28,562
Contingent consideration fair value adjustments	(210)	48,520			48,310
	$ (210)	$ 48,520	$ 27,539	$ 1,023	$ 76,872

Statement of Operations Line Item - 3 Months Ended March 26, 2011	**Sentinelle Medical**	**Interlace**	**Total**
Contingent consideration compensation expense	$	$ 1,055	$ 1,055
Contingent consideration fair value adjustments	(8,000)	2,729	(5,271)
	$ (8,000)	$ 3,784	$ (4,216)

Statement of Operations Line Item - 6 Months Ended March 26, 2011	**Sentinelle Medical**	**Interlace**	**Total**
Contingent consideration compensation expense	$	$ 1,055	$ 1,055
Contingent consideration fair value adjustments	(6,904)	2,729	(4,175)

	$ (6,904)	$ 3,784	$ (3,120)

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(b) Litigation and Related Matters

On May 22, 2009, Conceptus, Inc. filed suit in the United States District Court for the Northern District of California seeking a declaration by the Court that Hologic s planned importation, use, sale or offer to sell of its forthcoming Adiana Permanent Contraception System would infringe five Conceptus patents. On July 9, 2009, Conceptus filed an amended complaint alleging infringement of the same five patents by the Adiana system. The complaint sought preliminary and permanent injunctive relief and unspecified monetary damages. In addition to the amended complaint, Conceptus also filed a motion for preliminary injunction seeking to preliminarily enjoin sales of the Adiana System based on alleged infringement of certain claims of three of the five patents. A hearing on Conceptus preliminary injunction motion was held on November 4, 2009, and on November 6, 2009, the Court issued an order denying the motion. On January 19, 2010, upon stipulation of the parties, the Court dismissed all claims relating to three of the five asserted patents with prejudice. A Markman hearing on claim construction took place on March 10, 2010 and a ruling was issued on March 24, 2010. On April 12, 2010, in response to Hologic s counterclaims of unfair competition filed in October of 2009, the Court granted Conceptus leave to amend its counterclaims adding charges of unfair competition. On June 23, 2010, upon stipulation of the parties, the judge dismissed the asserted claims of an additional patent leaving three claims of U.S. patent 7,506,650 being asserted against the Company in the case. On August 10, 2010, the parties entered into a settlement agreement dismissing all unfair competition claims against each other. A hearing on both parties motions for summary judgment on the patent claims occurred on December 9, 2010, and on December 16, 2010, a ruling was issued granting Hologic summary judgment of no infringement of one of the three asserted claims. A trial was held from October 3, 2011 through October 14, 2011 related to the asserted claims. On October 17, 2011 the jury returned a verdict in favor of Conceptus and awarded damages to Conceptus in the amount of $18.8 million. Post trial motions were filed by both parties including a motion by Conceptus seeking to enjoin the Company from further sales of the Adiana system. A hearing on the post trial motions and injunction request took place on January 6, 2012, and on January 9, 2012, the judge issued an order denying Conceptus motion for an injunction and further found that the Company will not be required to pay royalties on future sales of the Adiana system nor any supplemental damages. On January 19, 2012, the Court granted Hologic s motion to stay the payment of damages pending appeal. On February 8, 2012, Hologic filed a notice of appeal to overturn the jury verdicts related to infringement and validity. On the same day Conceptus filed a notice of appeal to overturn the Court s denial of the permanent injunction. On April 29, 2012, the Company entered into a license and settlement agreement with Conceptus in which Conceptus agreed to forgo the $18.8 million jury award in consideration of the Company agreeing to a permanent injunction against the manufacture, sale and distribution of the Adiana product. The Company has also granted Conceptus a license to Hologic s intellectual property related to the Adiana product.

On July 16, 2010, Smith & Nephew, Inc. filed suit against Interlace, which the Company acquired on January 6, 2011, in the United States District Court for the District of Massachusetts. In the complaint, it is alleged that the Interlace MyoSure hysteroscopic tissue removal device infringes U.S. patent 7,226,459. The complaint seeks permanent injunctive relief and unspecified damages. A Markman hearing was held November 9, 2010, and a ruling was issued on April 21, 2011. On November 22, 2011, Smith & Nephew, Inc. filed suit against Hologic in the United States District Court for the District of Massachusetts. In the complaint, it is alleged that use of the MyoSure hysteroscopic tissue removal system infringes U.S. patent 8,061,359. The complaint seeks preliminary and permanent injunctive relief and unspecified damages. On January 17, 2012, at a hearing on Smith & Nephew s motion for preliminary injunction with respect to the suit filed November 22, 2011, the judge did not issue an injunction, consolidated the two matters for a single trial and scheduled a trial on the merits for both claims for June 25, 2012. A case management conference held on February 14, 2012 resulted in the trial being rescheduled to begin on August 20, 2012. On March 15, 2012, the Court heard summary judgment arguments related to the 459 patent and claim construction arguments related to the 359 patent. The purchase and sale agreement associated with the acquisition of Interlace includes an indemnification provision that provides for the reimbursement of a portion of legal expenses in defense of the Interlace intellectual property. The Company has the right to collect certain amounts set aside in escrow and, as applicable, offset contingent consideration payments of qualifying legal costs. The Company has recorded legal fees incurred for this suit under the indemnification provision net within accrued expenses. At this time, the Company believes a loss is neither probable nor remote and based on available information regarding this litigation, the Company is unable to determine an estimate, or a range of estimates, of potential losses.

On March 6, 2012, Enzo Life Sciences, Inc. (Enzo) filed a suit in the United States District Court of Delaware against Hologic alleging that certain of the Company s molecular diagnostics products infringe Enzo s U.S. Patent 6,992,180. Hologic has not been served with the complaint. At this time, the Company believes a loss is neither probable nor remote and based on available information regarding this matter, the Company is unable to determine an estimate, or a range of estimates, of potential losses.

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The Company is a party to various other legal proceedings and claims arising out of the ordinary course of its business. The Company believes that except for those described above there are no other proceedings or claims pending against it the ultimate resolution of which would have a material adverse effect on its financial condition or results of operations.

(7) Sale of Makena

On January 16, 2008, the Company entered into an agreement to sell the full world-wide rights of its Makena (formerly Gestiva) pharmaceutical product to K-V Pharmaceutical Company (KV) upon FDA approval of the then pending Makena new drug application for $82.0 million. The Company has executed certain amendments to this agreement resulting in an increase of the total sales price to $199.5 million and changing when payments are due to the Company, which were based on obtaining FDA approval. Amounts received from KV of $79.5 million prior to FDA approval were deferred.

On February 3, 2011, the Company received FDA approval of Makena, and subject to a security interest and a right of reversion for failure to make future payments, all rights to Makena were transferred to KV. Upon FDA approval, the Company received $12.5 million, and including the $79.5 million previously received, the Company recorded a gain on the sale of intellectual property, net of the write-off of certain assets, of $84.5 million in the second quarter of fiscal 2011. Pursuant to the amended agreement, the Company received $12.5 million in the second quarter of fiscal 2012, which has been recorded net of amounts due to the inventor of Makena. Currently, the remaining $95.0 million of the sales price is due over a period of 18 to 30 months from FDA approval (subject to further deferral elections) depending on which one of two payment options KV selects. KV will also owe the Company a 5% royalty on sales for certain time periods determined based upon the payment option or deferral elections selected by KV.

Due to uncertainty regarding collection, any amounts to be received in the future from KV have not been recorded in the Company s consolidated financial statements, and as the Company receives the amounts owed, the payments will be recorded as a gain within operating expenses in the Consolidated Statement of Operations in the period received.

(8) Pension and Other Employee Benefits

The Company has certain defined benefit pension plans covering the employees of its AEG German subsidiary. As of March 24, 2012 and September 24, 2011, the Company has recorded a pension liability of $7.9 million and $8.1 million, respectively, primarily as a component of long-term liabilities in the Consolidated Balance Sheets. As of March 24, 2012 and September 24, 2011, the pension plans held no assets. Under German law, there is no minimum funding requirement imposed on employers. The Company s net periodic benefit cost and components thereof were not material during the three and six months ended March 24, 2012 and March 26, 2011.

(9) Net (Loss) Income Per Share

Basic net (loss) income per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding. Diluted net (loss) income per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding plus the dilutive effect of potential common shares from outstanding stock options, restricted stock units, the employee stock purchase plan, and convertible debt determined by applying the treasury stock method. In accordance with ASC 718, *Stock Compensation*, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of restricted stock units and stock options that are in-the-money based on the Company s average stock during the period.

The Company applies the provisions of ASC 260, *Earnings per Share,* Subtopic 10-45-44, to determine the diluted weighted average shares outstanding as it relates to its outstanding Convertible Notes, and due to the type of debt instrument issued, the Company uses the treasury stock method and not the if-converted method. The dilutive impact of the Company s Convertible Notes is based on the difference between the Company s current period average stock price and the conversion price of the Convertible Notes, provided there is a premium. Pursuant to this accounting standard, there is no dilution from the accreted principal of the Convertible Notes.

A reconciliation of basic and diluted share amounts is as follows:

	Three Months Ended		Six Months Ended	
	March 24, 2012	March 26, 2011	March 24, 2012	March 26, 2011
Numerator:				
Net (loss) income	$ (40,273)	$ 82,445	$ (19,461)	$ 93,385
Denominator:				
Basic weighted average common shares outstanding	263,900	260,825	263,309	260,224
Weighted average common stock equivalents from assumed exercise of stock options and restricted stock units		3,205		3,364
Diluted weighted average common shares outstanding	263,900	264,030	263,309	263,588
Basic net (loss) income per common share	$ (0.15)	$ 0.32	$ (0.07)	$ 0.36
Diluted net (loss) income per common share	$ (0.15)	$ 0.31	$ (0.07)	$ 0.35
Weighted-average anti-dilutive shares related to:				
Outstanding stock options	9,644	6,045	10,971	7,710
Restricted stock units	846		1,602	1

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Diluted weighted average shares outstanding do not include any effect resulting from the assumed conversion of the Company s Convertible Notes as their impact would be anti-dilutive for all periods presented. In those reporting periods in which the Company has reported net income, anti-dilutive shares comprise those common stock equivalents that have either an exercise price above the average stock price for the quarter or the common stock equivalents related average unrecognized stock compensation expense is sufficient to buy back the entire amount of shares. In those reporting periods in which the Company has a net loss, anti-dilutive shares comprise the impact of those number of shares that would have been dilutive had the Company had net income plus the number of common stock equivalents that would be anti-dilutive had the company had net income.

(10) Stock-Based Compensation

Share-based compensation expense is as follows:

	Three Months Ended		Six Months Ended	
	March 24, 2012	March 26, 2011	March 24, 2012	March 26, 2011
Cost of revenues	$ 1,275	$ 1,138	$ 2,382	$ 2,541
Research and development	1,277	1,316	2,478	2,552
Selling and marketing	1,844	1,489	3,394	3,144
General and administrative	4,553	4,825	9,352	11,229
	$ 8,949	$ 8,768	$ 17,606	$ 19,466

The Company granted approximately 2.1 million and 2.2 million stock options during the six months ended March 24, 2012 and March 26, 2011, respectively, with weighted average exercise prices of $17.05 and $17.00, respectively. There were 15.6 million options outstanding at March 24, 2012 with a weighted average exercise price of $17.35.

The Company uses a binomial model to determine the fair value of its stock options. The weighted-average assumptions utilized to value these stock options are indicated in the following table:

	Three Months Ended		Six Months Ended	
	March 24, 2012	March 26, 2011	March 24, 2012	March 26, 2011
Risk-free interest rate	0.7%	1.0%	0.7%	1.0%
Expected volatility	47%	45%	47%	45%
Expected life (in years)	4.3	4.2	4.3	4.2
Dividend yield				
Weighted average fair value of options granted	$ 6.63	$ 7.02	$ 6.42	$ 6.19

The Company granted approximately 1.5 million and 1.2 million restricted stock units (RSU) during the six months ended March 24, 2012 and March 26, 2011, respectively, with weighted average grant date fair values of $17.09 and $16.87, respectively. As of March 24, 2012, there were 3.5 million unvested RSUs outstanding with a weighted average grant date fair value of $16.29.

The Company uses the straight-line attribution method to recognize stock-based compensation expense for stock options and RSUs. The vesting term of stock options granted to employees is generally five years with annual vesting of 20% per year on the anniversary of the grant date, and RSUs granted to employees generally vest over four years with annual vesting at 25% per year on the anniversary of the grant date. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that is ultimately expected to vest. Based on an analysis of historical forfeitures, the Company has determined a specific forfeiture rate for certain employee groups and has applied forfeiture rates ranging from 0% to 4.5% as of March 24, 2012. This analysis is periodically re-evaluated and forfeiture rates will be adjusted as necessary. Ultimately, the actual stock-based compensation expense recognized will only be for those stock options and RSUs that vest.

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At March 24, 2012, there was $35.1 million and $45.6 million of unrecognized compensation expense related to stock options and RSUs, respectively, to be recognized over a weighted average period of 3.3 years and 2.8 years, respectively.

(11) Comprehensive (Loss) Income

The Company s other comprehensive (loss) income solely consists of foreign currency translation adjustments. A reconciliation of comprehensive (loss) income is as follows:

	Three Months Ended		Six Months Ended	
	March 24, 2012	March 26, 2011	March 24, 2012	March 26, 2011
Net (loss) income as reported	$ (40,273)	$ 82,445	$ (19,461)	$ 93,385
Translation adjustment	5,034	8,912	4,676	8,658
Comprehensive (loss) income	$ (35,239)	$ 91,357	$ (14,785)	$ 102,043

(12) Business Segments and Geographic Information

The Company reports segment information in accordance with ASC 280, *Segment Reporting.* Operating segments are identified as components of an enterprise for which separate, discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. The Company s chief operating decision maker is its chief executive officer, and the Company s reportable segments have been identified based on the types of products manufactured and the end markets to which the product are sold into. Each reportable segment generates revenue from either the sale of medical equipment and related services and/or the sale of disposable supplies, primarily used for diagnostic testing and surgical procedures. The Company has four reportable segments: Breast Health, Diagnostics, GYN Surgical and Skeletal Health. Certain reportable segments represent an aggregation of operating units within each segment. The Company measures and evaluates its reportable segments based on segment revenues and operating income adjusted to exclude the effect of non-cash charges, such as intangible asset amortization expense, contingent consideration charges, and other one-time or unusual items.

Identifiable assets for the four principal operating segments consist of inventories, intangible assets including goodwill, and property and equipment. The Company fully allocates depreciation expense to its four reportable segments. The Company has presented all other identifiable assets as corporate assets. There were no intersegment revenues during the three and six months ended March 24, 2012 and March 26, 2011. Segment information is as follows:

	Three Months Ended		Six Months Ended	
	March 24, 2012	March 26, 2011	March 24, 2012	March 26, 2011
Total revenues:				
Breast Health	$ 218,631	$ 205,866	$ 433,983	$ 401,218
Diagnostics	151,841	138,231	305,905	277,331
GYN Surgical	77,178	71,490	155,723	147,173
Skeletal Health	23,515	23,064	48,265	45,500
	$ 471,165	$ 438,651	$ 943,876	$ 871,222
Operating income (loss):				
Breast Health	$ 48,869	$ 50,777	$ 96,286	$ 85,135
Diagnostics	21,619	108,057	41,757	133,097
GYN Surgical	(63,377)	(6,388)	(68,390)	3,143
Skeletal Health	3,023	2,942	7,240	5,733

	$ 10,134	$ 155,388	$ 76,893	$ 227,108
Depreciation and amortization:				
Breast Health	$ 10,470	$ 11,110	$ 21,074	$ 22,243
Diagnostics	39,926	40,629	79,915	81,497
GYN Surgical	26,217	23,531	52,305	44,529
Skeletal Health	428	465	870	936
	$ 77,041	$ 75,735	$ 154,164	$ 149,205

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	Three Months Ended		Six Months Ended	
	March 24, 2012	March 26, 2011	March 24, 2012	March 26, 2011
Capital expenditures:				
Breast Health	$ 2,213	$ 4,474	$ 3,782	$ 7,777
Diagnostics	9,455	5,662	17,623	11,473
GYN Surgical	3,251	2,580	6,000	4,883
Skeletal Health	9	693	466	1,050
Corporate	2,823	1,193	5,686	2,504
	$ 17,751	$ 14,602	$ 33,557	$ 27,687

	March 24, 2012	September 24, 2011
Identifiable assets:		
Breast Health	$ 983,274	$ 985,196
Diagnostics	1,717,394	1,770,107
GYN Surgical	1,993,352	2,049,682
Skeletal Health	32,576	31,864
Corporate	1,321,660	1,171,931
	$ 6,048,256	$ 6,008,780

The Company had no customers with balances greater than 10% of accounts receivable as of March 24, 2012 or September 24, 2011, or any customer that represented greater than 10% of product revenues during the three and six months ended March 24, 2012 and March 26, 2011.

The Company operates in the major geographic areas as noted in the below chart. Revenue data is based upon customer location, and internationally totaled $116.5 million and $234.1 million during the three and six months ended March 24, 2012, respectively, and $98.5 million and $194.3 million during the three and six months ended March 26, 2011, respectively. Other than the United States, no single country accounted for more than 10% of consolidated revenues. The Company s sales in Europe are predominantly derived from Germany, the United Kingdom and the Netherlands. The Company s sales in Asia-Pacific are predominantly derived from China, Australia and Japan. The All others designation includes Canada, Latin America and the Middle East. Products sold by the Company internationally are manufactured at both domestic and international locations.

Revenues by geography as a percentage of total revenues are as follows:

	Three Months Ended		Six Months Ended	
	March 24, 2012	March 26, 2011	March 24, 2012	March 26, 2011
United States	75%	78%	75%	78%
Europe	11%	13%	12%	13%
Asia	8%	5%	8%	5%
All others	6%	4%	5%	4%
	100%	100%	100%	100%

(13) Income Taxes

In accordance with ASC 740, *Income Taxes*, each interim period is considered integral to the annual period and tax expense is measured using an estimated annual effective rate. The Company records income tax expense each quarter based on its best estimate of the annual effective rate for the full fiscal year and uses that rate to provide for income taxes on a current year-to-date basis, as adjusted for discrete taxable events that occur during the interim period.

The Company s effective tax rates for the three and six month periods ended March 24, 2012 were 31.3% and (4.0)%, respectively. The Company s effective tax rates for the three and six month periods ended March 26, 2011 were 36.0% and 33.9%, respectively. For the three and six months ended March 24, 2012, the effective tax rate was less than the statutory rate primarily due to

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the tax benefit for charges recorded in the second quarter of fiscal 2012 related to the debt extinguishment loss and discontinuing the Adiana product line. These discrete benefits were partially offset by the net recurring rate impact of the non-deductible TCT contingent consideration compensation expense, non-deductible contingent consideration fair value adjustments for Interlace and Sentinelle Medical and the Section 199 manufacturing deduction. For the three months ended March 26, 2011, the effective tax rate primarily reflected the statutory rate. For the six months ended March 26, 2011, the effective tax rate was less than the statutory rate primarily due to the Section 199 manufacturing deduction, current year U.S. and Canadian research credits, the retroactively reinstated Federal research credit, and the tax benefit generated from the debt extinguishment loss recorded in the first quarter of fiscal 2011.

As of March 24, 2012, the Company has recorded $837.3 million of net deferred tax liabilities, which is net of certain deferred tax assets, compared to $917.8 million at September 24, 2011. The Company s deferred tax assets are periodically evaluated to determine their recoverability. In connection with retiring $500.0 million principal of the 2007 Notes, the Company is required to recapture the original issuance discount it deducted for tax purposes and remit $59.0 million to the Internal Revenue Service and state taxing jurisdictions in fiscal 2012. This amount had been recorded within the deferred tax liabilities.

The Company has $30.5 million of gross unrecognized tax benefits, including interest, at March 24, 2012. This represents the unrecognized tax that, if recognized, would reduce the Company s effective tax rate. The Company s policy is to recognize accrued interest and penalties related to unrecognized tax benefits and income tax liabilities within income tax expense. As of March 24, 2012, accrued interest is $0.9 million, net of federal benefit, and no penalties have been accrued.

The current tax returns are subject to examination through fiscal 2016. In fiscal 2011, the Company completed an IRS examination for fiscal years 2007, 2008 and 2009 resulting in a $7.6 million payment The Company has a tax holiday in Costa Rica that currently does not materially impact its effective tax rate and is scheduled to expire in 2015.

(14) Restructuring

At the end of the second quarter of fiscal 2012, the Company decided to cease manufacturing, marketing and selling its Adiana system, which is a product line within the Company s GYN Surgical reporting segment, determining that the product was not financially viable and would not become so in the foreseeable future. As a result, the Company recorded impairment charges within in cost of product sales in the Consolidated Statement of Operations aggregating $17.9 million, comprised of $9.2 million to record inventory at its net realizable value, $6.1 million to write down certain manufacturing equipment, including equipment placed at customer sites, to its fair value that has no further utility, and $2.6 million to accrue for outstanding contractual purchase orders of raw materials and components related to the Adiana products that will not be utilized. In connection with this action, the Company terminated certain manufacturing and other personnel primarily at its Costa Rica location, resulting in severance charges of $0.2 million, and other contractual charges of $0.2 million. As of March 24, 2012, $3.0 million was accrued and is expected to be paid by the end of fiscal 2012.

During the second quarter of fiscal 2012, the Company abandoned certain lease space and recorded charges of $0.4 million to terminate the leases and write-off related leasehold improvements that have no further utility.

(15) Goodwill and Intangible Assets

Goodwill

In accordance with ASC 350, *Intangibles-Goodwill and Other,* the Company tests goodwill at the reporting unit level for impairment on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying value. Events that would indicate impairment and trigger an interim impairment assessment include, but are not limited to, current economic and market conditions, including a decline in market capitalization, a significant adverse change in legal factors, business climate or operational performance of the business, and an adverse action or assessment by a regulator. The Company conducts its annual goodwill impairment test as of the first day of its fiscal fourth quarter.

The Company conducted its fiscal 2011 annual impairment test on the first day of the fourth quarter. The Company utilized the income approach under the discounted cash flow method (DCF) and market approaches to estimate the fair value of its reporting units as of June 26, 2011, and ultimately used the fair value determined by the DCF in making its impairment test conclusions. The Company believes it used reasonable estimates and assumptions about future revenue, cost projections, cash flows and market multiples. In addition, using a DCF requires the use of a risk-adjusted discount rate for which the Company based its rate on the weighted average cost of capital (WACC) of market participants. As a result of completing Step 1, all of the Company s reporting units had fair values exceeding their carrying values, and as such, Step 2 of the impairment test was not required. For illustrative purposes, had the fair value of each reporting unit been lower by 10%, each reporting unit would have still passed Step 1 of the goodwill impairment test.

The Company has ongoing litigation with Conceptus regarding potential patent infringement of a Conceptus patent by the Company s Adiana system. In the first quarter of fiscal 2012, the jury returned a verdict in favor of Conceptus and awarded Conceptus $18.8 million in damages. Post trial motions were filed, and Conceptus sought to enjoin the Company from further sales of the Adiana

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system. The Company was appealing the jury verdict, and all trial and post trial rulings were subject to appeal by either party. See note 6(b) for additional discussion of this litigation matter. The jury verdict in the first quarter of fiscal 2012 and related subsequent litigation status was an indicator of impairment for the Company s GYN Surgical reporting unit, and a reduction in the anticipated future cash flows of the GYN Surgical reporting unit could result in a material impairment charge. Accordingly, the Company performed an interim goodwill impairment analysis as of December 24, 2011, updating its cash flow projections and related assumptions from its fiscal 2011 annual impairment test, including the WACC, under various potential scenarios. The Company applied the weighted average probability approach to these scenarios to estimate the fair value of the GYN Surgical reporting unit. As a result of completing Step 1, GYN Surgical s fair value exceeded its carrying value. Therefore, Step 2 of the impairment test was not required as of December 24, 2011. The Company believes it used reasonable estimates and assumptions about future revenue, cost projections, cash flows, probabilities of cash flow scenarios, and market multiples as of that measurement date.

In connection with the Company s decision to discontinue the Adiana product line as discussed above, and its updated forecast for the GYN Surgical reporting unit in which the estimate of NovaSure revenues from previous analyses has decreased over the next few years, the Company concluded that potential goodwill impairment indicators existed as of March 24, 2012. As such, the Company performed an interim goodwill impairment test as of March 24, 2012, updating its cash flow projections and related assumptions from the analysis performed as of December 24, 2011. As a result of completing Step 1, GYN Surgical s fair value exceeded its carrying value. Therefore, Step 2 of the impairment test was not required as of March 24, 2012. The Company believes it used reasonable estimates and assumptions about future revenue, cost projections, cash flows, probabilities of cash flow scenarios, and market multiples as of that measurement date.

The following table presents the changes in goodwill during the six months ended March 24, 2012:

Balance at September 24, 2011	$ 2,290,330
Adjustments, including taxes	4,575
Foreign currency translation impact	2,546
Balance at March 24, 2012	$ 2,297,451

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The allocation of goodwill by reporting segment consisted of the following:

	Balance as of March 24, 2012	Balance as of September 24, 2011
Breast Health	$ 641,347	$ 638,887
Diagnostics	631,743	633,319
GYN Surgical	1,016,220	1,009,973
Skeletal Health	8,141	8,151
	$ 2,297,451	$ 2,290,330

Intangible Assets

The Company amortizes its intangible assets that have definite lives using either the straight-line method, or if reliably determinable, based on the pattern in which the economic benefit of the asset is expected to be utilized. Amortization is recorded over the estimated useful lives ranging from 2 to 30 years.

The Company evaluates the realizability of its definite-lived intangible assets whenever events or changes in circumstances or business conditions indicate that the carrying value of these assets may not be recoverable based on expectations of undiscounted future cash flows for each asset group. If the carrying value of an asset or asset group exceeds its undiscounted cash flows, the Company estimates the fair value of the assets, generally utilizing a DCF based on market participant assumptions pursuant to ASC 820. The Company would record an impairment charge to the extent the carrying value of the assets exceeds their fair value.

During the first and second quarters of fiscal 2012, as a result of the Company s conclusion that an interim impairment test of goodwill was required for its GYN Surgical reporting unit, the Company also performed an impairment test of the reporting unit s long-lived assets as of December 24, 2011 and March 24, 2012. The impairment evaluation was based on expectations of future undiscounted cash flows compared to the carrying value of the long-lived asset group. The Company believes that its procedures for estimating future cash flows were reasonable and consistent with market conditions at the time of estimation. The results of the Company s interim impairment testing indicated that there was no impairment of its long-lived assets.

Intangible assets consisted of the following:

	As of March 24, 2012			As of September 24, 2011		
Description		**Gross Carrying Value**	**Accumulated Amortization**		**Gross Carrying Value**	**Accumulated Amortization**
Developed technology	$	2,218,767	$ 677,092	$	2,215,323	$ 586,647
In-process research and development					840	
Customer relationships		512,753	174,113		507,974	150,039
	92% $	64,673	$ 15.46	100%	100%	
Redevelopment Properties:						
Mid-Atlantic	517	79%	$ 3,467	$ 8.44	92%	95%
New York Region	42	24%	180	17.45	8%	5%
Total Core Redevelopment Properties	559	75%	$ 3,647	$ 8.66	100%	100%

Opportunity Funds:

Operating Properties:						
Midwest	135	36%	$ 593	$ 12.37	5%	2%
New York Region	1,389	84%	28,593	24.49	56%	76%
Various (Kroger/Safeway Portfolio)	709	100%	3,560	5.02	29%	9%
New England	255	93%	4,881	20.51	10%	13%
Total Opportunity Fund Operating Properties	2,488	87%	$ 37,627	$ 17.40	100%	100%
Redevelopment Properties:						
New York Region	230	83%	$ 4,385	$ 23.07	100%	100%

Notes:

(1) Property GLA includes a total of 255,000 square feet, which is not owned by us. This square footage has been excluded for calculating annualized base rent per square foot.

(2) The above occupancy and rent amounts do not include space that is currently leased, but for which payment of rent had not commenced as of December 31, 2010.

SELF-STORAGE PORTFOLIO

During February 2008, we, through Fund III, acquired a 95% controlling interest in a portfolio of eleven self-storage properties from Storage Post s existing institutional investors for approximately $174.0 million. In addition, we, through Fund II, developed three self-storage properties. The fourteen self-storage property portfolio, located throughout New York and New Jersey, totals 1,127,490 net rentable square feet, and is operating at various stages of stabilization as detailed in the table below. The portfolio is operated by Self Storage Management, a joint venture entity formed by Fund III and an unaffiliated partner.

Owner	Operating Properties	Location	Net Rentable Square Feet	Occupancy as of December 31, 2010
	Stabilized			
Fund III	Suffern	Suffern, New York	78,950	
Fund III	Yonkers	Westchester, New York	100,643	
Fund III	Jersey City	Jersey City, New Jersey	76,920	
Fund III	Webster Ave	Bronx, New York	36,175	
Fund III	Linden	Linden, New Jersey	84,035	
Fund III	Bruckner Blvd	Bronx, New York	89,473	
Fund III	New Rochelle	Westchester, New York	42,158	
Fund III	Lawrence	Lawrence, New York	97,743	
	Subtotal Stabilized		606,097	87.5%
	Redeveloped - in Lease-up			
Fund III	Long Island City	Queens, New York	135,558	
	Subtotal in Lease-up		135,558	75.3%
	Total Operating Properties		741,655	85.3%
	In Initial Lease-up			
Fund III	Fordham Road	Bronx, New York	85,155	
Fund III	Ridgewood	Queens, New York	88,789	
Fund II	Liberty Avenue	Queens, New York	72,925	
Fund II	Pelham Plaza	Pelham Manor, New York	62,020	
Fund II	Atlantic Avenue	Brooklyn, New York	76,946	
	Subtotal in Initial Lease-up		385,835	66.1%
	Total Self-Storage Portfolio		1,127,490	

KROGER/SAFEWAY PORTFOLIO

At December 31, 2010, Fund I, together with an unaffiliated joint venture partner (Kroger/Safeway JV), owns interests, through two master leases with an unaffiliated entity (Master Lessee), in 18 triple-net Kroger and Safeway supermarket leases (Operating Leases) aggregating approximately 0.7 million square feet. There are six Kroger and twelve Safeway locations in eleven states averaging approximately 39,000 square feet at rents ranging from approximately $3.70 to $7.00 per square foot. The master leases expire in January 2011 with the Master Lessee having the option of extending the term of either or both of the master leases. The Master Lessee exercised the option to cancel the master lease in the first quarter of 2011. As a result, the Kroger/Safeway JV became the operating landlord of the locations. The Kroger/Safeway JV holds its interest through long-term ground leases, which have a term in excess of 80 years, inclusive of multiple renewal options. Although there is no obligation for the Kroger/Safeway JV to pay ground rent during the initial term of the master lease, to the extent it exercises an option to renew a ground lease for a property thereafter, it will be obligated to pay an average ground rent of approximately $2.00 per square foot.

The Kroger Co. purchased six locations comprising 277,700 square feet, or 28% of the portfolio, during February of 2009 for $14.6 million, resulting in a gain of approximately $5.6 million.

The initial Operating Leases expired during 2009. Options on these leases provide for extensions through 2049 at an average rent of approximately $5.00 per square foot upon the commencement of the initial option period during 2009. Of the remaining 18 locations, 15 are currently occupied and paying rent, one is unoccupied and paying rent, and two remain vacant.

ITEM 3. LEGAL PROCEEDINGS.

We are involved in other various matters of litigation arising in the normal course of business. While we are unable to predict with any certainty the amounts involved, management is of the opinion that, when such litigation is resolved, our resulting exposure to loss contingencies, if any, will not have a significant effect on our consolidated financial position, results of operations, or liquidity.

During September 2008, we, and certain of our subsidiaries, and other unrelated entities were named as defendants in an adversary proceeding brought by Mervyn s LLC (Mervyns) in the United States Bankruptcy Court for the District of Delaware. This lawsuit involves five claims alleging fraudulent transfers. The first claim is that, at the time of the sale of Mervyns by Target Corporation to a consortium of investors including Acadia, a transfer of assets was made in an effort to defraud creditors. We believe this aspect of the case is without merit. There are four other claims relating to transfers of assets of Mervyns at various times. We believe there are substantial defenses to these claims. The matter is in the early stages of discovery and we believe the lawsuit will not have a material adverse effect on our results of operations, consolidated financial condition, or liquidity.

During August 2009, we terminated the employment of a former Senior Vice President (the Former Employee) for engaging in conduct that fell within the definition of cause in his severance agreement with us. Had the Former Employee not been terminated for cause, he would have been eligible to receive approximately $0.9 million under the severance agreement. Because we terminated him for cause, we did not pay the Former Employee any severance benefits under the agreement. The Former Employee has brought a lawsuit against us in New York State Supreme Court, alleging breach of the severance agreement. The suit is in the pre-trial discovery stage. We believe we have meritorious defenses to the suit.

ITEM 4. REMOVED AND RESERVED.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) Market Information, dividends and record holders of our Common Shares

The following table shows, for the period indicated, the high and low sales price for our Common Shares as reported on the New York Stock Exchange, and cash dividends declared during the two years ended December 31, 2010 and 2009:

Quarter Ended 2010	High	Low	Dividend Per Share
March 31, 2010	$ 18.40	$ 14.88	$ 0.1800
June 30, 2010	19.80	16.22	0.1800
September 30, 2010	19.77	15.87	0.1800
December 31, 2010	20.17	17.72	0.1800
2009			
March 31, 2009	$ 14.69	$ 8.50	$ 0.2100
June 30, 2009	15.44	10.37	0.1800
September 30, 2009	16.51	11.55	0.1800
December 31, 2009	17.69	13.31	0.1800

At February 28, 2011, there were 309 holders of record of our Common Shares.

We have determined for income tax purposes that 100% of the total dividends distributed to shareholders during 2010 represented ordinary income. The dividend for the quarter ended December 31, 2010 was paid on February 1, 2011 and will be taxable in 2011. Our cash flow is affected by a number of factors, including the revenues received from rental properties, our operating expenses, the interest expense on our borrowings, the ability of lessees to meet their obligations to us and unanticipated capital expenditures. Future dividends paid by us will be at the discretion of the Trustees and will depend on our actual cash flows, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Trustees deem relevant. In addition, we have the ability to pay dividends in cash, Common Shares or in any combination of cash (minimum 10%) and Common Shares (maximum 90%).

(b) Issuer purchases of equity securities

We have an existing share repurchase program that authorizes management, at its discretion, to repurchase up to $20.0 million of our outstanding Common Shares. The program may be discontinued or extended at any time and there is no assurance that we will purchase the full amount authorized. There were no Common Shares repurchased by us during the year ended December 31, 2010.

(c) Securities authorized for issuance under equity compensation plans

The following table provides information related to our 1999 Share Incentive Plan (the 1999 Plan), 2003 Share Incentive Plan (the 2003 Plan) and the 2006 Share Incentive Plan (the 2006 Plan) as of December 31, 2010:

Equity Compensation Plan Information

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted - average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	152,283	$ 18.20	763,444(1)
Equity compensation plans not approved by security holders			
Total	152,283	$ 18.20	763,444(1)

Notes:

(1) The 1999 Plan authorizes the issuance of options equal to up to 8% of the total Common Shares outstanding from time to time on a fully diluted basis. However, not more than 4,000,000 of the Common Shares in the aggregate may be issued pursuant to the exercise of options and no participant may receive more than 5,000,000 Common Shares during the term of the 1999 Plan. The 2003 Plan authorizes the issuance of options equal to up to 4% of the total Common Shares outstanding from time to time on a fully diluted basis. However, no participant may receive more than 1,000,000 Common Shares during the term of the 2003 Plan. The 2006 Plan authorizes the issuance of a maximum number of 500,000 Common Shares. No participant may receive more than 500,000 Common Shares during the term of the 2006 Plan. We have also issued LTIP Units, which are generally exchangeable on a one-for-one basis for our Operating Partnership Units which in turn are convertible into Common Shares. Reference is made to Note 15 to our Consolidated Financial Statements, which begin on Page F-1 of this Form 10-K, for a summary of our Share Incentive Plans.

Remaining Common Shares available under our share incentive plans is as follows:

Outstanding Common Shares as of December 31, 2010	40,254,525
Outstanding OP Units as of December 31, 2010	360,114
Total Outstanding Common Shares and OP Units	40,614,639
12% of Common Shares and OP Units pursuant to the 1999 and 2003 Plans	4,873,757
Common Shares pursuant to the 2006 Plan	500,000
Total Common Shares available under equity compensation plans	5,373,757
Less: Issuance of Restricted Shares and LTIP Units Granted	(1,834,794)
Issuance of Options Granted	(2,775,519)
Number of Common Shares remaining available	763,444

(d) Share Price Performance Graph (1)

The following graph compares the cumulative total shareholder return for our Common Shares for the period commencing December 31, 2005 through December 31, 2010 with the cumulative total return on the Russell 2000 Index (Russell 2000), the NAREIT All Equity REIT Index (the NAREIT) and the SNL Shopping Center REITs (the SNL) over the same period. Total return values for the Russell 2000, the NAREIT, the SNL and the Common Shares were calculated based upon cumulative total return assuming the investment of $100.00 in each of the Russell 2000, the

NAREIT, the SNL and our Common Shares on December 31, 2005, and assuming reinvestment of dividends. The shareholder return as set forth in the table below is not necessarily indicative of future performance.

Note:
(1) The information in this section is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any filing of the Trust under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

Comparison of 5 Year Cumulative Total Return among Acadia Realty Trust, the Russell 2000, the NAREIT and the SNL:

	Period Ended					
Index	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**
Acadia Realty Trust	100.00	128.74	137.06	83.20	103.95	116.96
Russell 2000	100.00	118.37	116.51	77.15	98.11	124.46
NAREIT All Equity REIT Index	100.00	135.06	113.87	70.91	90.76	116.12
SNL REIT Retail Shopping Ctr Index	100.00	134.61	110.82	66.72	65.86	85.53

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth, on a historical basis, our selected financial data. This information should be read in conjunction with our audited Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Form 10-K. Funds from operations (FFO) amounts for the year ended December 31, 2010 have been adjusted as set forth in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Reconciliation of Net Income to Funds from Operations and Adjusted Funds From Operations.

(dollars in thousands, except per share amounts)	Years ended December 31, 2010	2009	2008	2007	2006
OPERATING DATA:					
Revenues	$ 151,958	$ 145,703	$ 133,566	$ 88,259	$ 85,577
Operating expenses, excluding depreciation and reserves	69,379	70,963	61,215	46,090	40,227
Interest expense	34,471	32,154	28,893	24,564	19,929
Depreciation and amortization	40,115	36,634	32,749	24,529	22,431
Gain on sale of land			763		
Equity in earnings (losses) of unconsolidated partnerships	10,971	(1,529)	19,906	6,619	2,559
Impairment of investment in unconsolidated affiliate		(3,768)			
Reserve for notes receivable		(1,734)	(4,392)		
Other interest income	408	642	3,370	5,833	2,318
Gain from bargain purchase	33,805				
Gain on debt extinguishment		7,057	1,523		
Income tax expense (benefit)	2,890	1,541	3,362	297	(508)
Income from continuing operations	50,287	5,079	28,517	5,231	8,375
Income from discontinued operations	380	7,627	8,920	7,486	25,780
Income from extraordinary item (1)				27,844	
Net income	50,667	12,706	37,437	40,561	34,155
(Income) loss attributable to noncontrolling interests in subsidiaries:					
Continuing operations	(20,307)	23,472	(11,438)	9,750	6,039
Discontinued operations	(303)	(5,045)	(931)	(798)	(1,274)
Extraordinary item				(24,167)	
Net (income) loss attributable to noncontrolling interests in subsidiaries	(20,610)	18,427	(12,369)	(15,215)	4,765
Net income attributable to Common Shareholders	$ 30,057	$ 31,133	$ 25,068	$ 25,346	$ 38,920
Supplemental Information:					
Income from continuing operations attributable to Common Shareholders	$ 29,980	$ 28,551	$ 17,079	$ 14,981	$ 14,414
Income from discontinued operations attributable to Common Shareholders	77	2,582	7,989	6,688	24,506
Income from extraordinary item attributable to Common Shareholders				3,677	
Net income attributable to Common Shareholders	$ 30,057	$ 31,133	$ 25,068	$ 25,346	$ 38,920
Basic earnings per share:					
Income from continuing operations	$ 0.75	$ 0.75	$ 0.51	$ 0.45	$ 0.43
Income from discontinued operations		0.07	0.23	0.20	0.72
Income from extraordinary item				0.11	
Basic earnings per share	$ 0.75	$ 0.82	$ 0.74	$ 0.76	$ 1.15
Diluted earnings per share:					
Income from continuing operations	$ 0.74	$ 0.75	$ 0.50	$ 0.44	$ 0.42

Income from discontinued operations		0.07	0.23	0.19	0.71
Income from extraordinary item				0.11	
Diluted earnings per share	$ 0.74	$ 0.82	$ 0.73	$ 0.74	$ 1.13
Weighted average number of Common Shares outstanding					
- basic	40,136	38,005	33,813	33,600	33,789
- diluted	40,406	38,242	34,267	34,282	34,440
Cash dividends declared per Common Share (3)	$ 0.7200	$ 0.7500	$ 0.8951	$ 1.0325	$ 0.7550
BALANCE SHEET DATA:					
Real estate before accumulated depreciation	$ 1,386,299	$ 1,200,483	$ 1,085,072	$ 810,697	$ 606,905
Total assets	1,524,806	1,382,464	1,291,383	998,783	851,396
Total mortgage indebtedness	806,212	732,287	653,543	399,997	315,147
Total convertible notes payable	48,712	47,910	100,403	105,790	90,256
Total Common Shareholders equity	318,212	312,185	227,722	249,717	250,567
Noncontrolling interests in subsidiaries	269,310	220,292	214,506	171,111	113,737
Total equity	587,522	532,477	442,228	420,828	364,304
OTHER:					
Funds from Operations, adjusted for extraordinary item (1) (2)	50,440	49,613	37,964	42,094	39,860
Cash flows provided by (used in):					
Operating activities	44,377	47,462	66,517	105,294	39,627
Investing activities	(60,745)	(123,380)	(302,265)	(208,998)	(58,890)
Financing activities	43,152	83,035	199,096	87,476	68,359

Notes:

(1) The extraordinary item relates to 2007 and represents our share of an extraordinary gain from our investment in Albertson s. We consider this to be a private-equity style investment in an operating businesses as opposed to real estate. Accordingly, all gains and losses from this investment is included in FFO, which we believe provides a more accurate reflection of our operating performance.

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(2) We consider funds from operations (FFO) as defined by the National Association of Real Estate Investment Trusts (NAREIT) to be an appropriate supplemental disclosure of operating performance for an equity REIT due to its widespread acceptance and use within the REIT and analyst communities. FFO is presented to assist investors in analyzing our performance. It is helpful as it excludes various items included in net income that are not indicative of the operating performance, such as gains (losses) from sales of depreciated property and depreciation and amortization. However, our method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles (GAAP) and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating our performance or to cash flows as a measure of liquidity. Consistent with the NAREIT definition, we define FFO as net income (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

(3) In addition to the $0.8951 cash dividends declared in 2008, we declared a Common Share dividend of $0.4949.

ITEM 7. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

As of December 31, 2010, we operated 79 properties, which we own or have an ownership interest in, within our Core Portfolio or within our three Opportunity Funds. Our Core Portfolio consists of those properties either 100% owned by, or partially owned through joint venture interests by the Operating Partnership, or subsidiaries thereof, not including those properties owned through our Opportunity Funds. These 79 properties consist of commercial properties, primarily neighborhood and community shopping centers, self-storage and mixed-use properties with a retail component. The properties we operate are located primarily in the Northeast, Mid-Atlantic and Midwestern regions of the United States. Excluding two properties under redevelopment, there are 32 properties in our Core Portfolio totaling approximately 4.8 million square feet. Fund I has 20 properties comprising approximately 0.9 million square feet. Fund II has 10 properties, eight of which (representing 1.2 million square feet) are currently operating, one is under construction, and one is in the design phase. Three of the properties also include self-storage facilities. We expect the Fund II portfolio will have approximately 2.0 million square feet upon completion of all current construction and anticipated redevelopment activities. Fund III has 15 properties totaling approximately 1.8 million square feet, of which 11 locations representing 0.9 million net rentable square feet are self-storage facilities and one is in the design phase. The majority of our operating income is derived from rental revenues from these 79 properties, including recoveries from tenants, offset by operating and overhead expenses. As our RCP Venture invests in operating companies, we consider these investments to be private-equity style, as opposed to real estate, investments. Since these are not traditional investments in operating rental real estate but investments in operating businesses, the Operating Partnership invests in these through a taxable REIT subsidiary (TRS).

Our primary business objective is to acquire and manage commercial retail properties that will provide cash for distributions to shareholders while also creating the potential for capital appreciation to enhance investor returns. We focus on the following fundamentals to achieve this objective:

Own and operate a Core Portfolio of community and neighborhood shopping centers and main street retail located in markets with strong demographics and generate internal growth within the Core Portfolio through aggressive redevelopment, re-anchoring and/or leasing activities

Maintain a strong and flexible balance sheet through conservative financial practices while ensuring access to sufficient capital to fund future growth

Generate external growth through an opportunistic yet disciplined acquisition program. We target transactions with high inherent opportunity for the creation of additional value through redevelopment and leasing and/or transactions requiring creative capital structuring to facilitate the transactions. These transactions may include other types of commercial real estate besides those which we currently invest in through our Core Portfolio. These may also include joint ventures with private equity investors for the purpose of making investments in operating retailers with significant embedded value in their real estate assets

BUSINESS OUTLOOK

The U.S. economy is currently in a post recessionary period, which has resulted in a significant decline in retail sales due to reduced consumer spending. Although the occupancy and net operating income within our portfolio has not been materially adversely affected through December 31, 2010, should retailers continue to experience deteriorating sales performance, the likelihood of additional tenant bankruptcy filings may increase, which would negatively impact our results of operations. In addition to the impact on retailers, this period has had an unprecedented impact on the U.S. credit markets. Traditional sources of financing, such as the commercial-mortgage backed security market, have become severely curtailed. If these conditions continue, our ability to finance new acquisitions or refinance existing debts as they mature will be adversely affected. Accordingly, our ability to generate external growth in income, as well as maintain existing operating income, could be limited.

See the Item 1A. Risk Factors, including the discussions under the headings The current economic environment, while improving, may cause us to lose tenants and may impair our ability to borrow money to purchase properties, refinance existing debt or finance our current redevelopment projects and The bankruptcy of, or a downturn in the business of, any of our major tenants or a significant number of our smaller tenants may adversely affect our cash flows and property values.

RESULTS OF OPERATIONS

Reference is made to Note 3 to the Notes to Consolidated Financial Statements beginning on page F-1 of this Form 10-K for an overview of our five reportable segments.

Comparison of the year ended December 31, 2010 (2010) to the year ended December 31, 2009 (2009)

Revenues	2010				2009			
(dollars in millions)	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable and Other
Rental income	$ 48.3	$ 39.0	$ 19.6	$	$ 51.2	$ 34.7	$ 9.8	$
Mortgage interest income				19.2				19.7
Expense reimbursements	13.3	8.7			13.7	7.2		
Lease termination income	0.3				2.8			
Management fee income (1)				1.4				2.0
Other	0.3	0.2	1.7		1.9	1.4	1.3	
Total revenues	$ 62.2	$ 47.9	$ 21.3	$ 20.6	$ 69.6	$ 43.3	$ 11.1	$ 21.7

Note:

(1) Fees earned by us as general partner/managing member of the Opportunity Funds are eliminated in consolidation and adjust the loss (income) attributable to noncontrolling interests and are not reflected above. The balance reflected in the table represents third party fees that are not eliminated in consolidation.

The decrease in rental income in the Core Portfolio was primarily attributable to tenant vacancies at Chestnut Hill and Third Avenue. The increase in rental income in the Opportunity Funds primarily related to additional rents following the acquisition of Cortlandt Towne Center (2009 Fund Acquisition) of $1.0 million and additional rents at Fordham Place, Pelham Manor and Canarsie for leases that commenced in 2009 and 2010 (Fund Redevelopment Properties). The increase in rental income in the Storage Portfolio related to the full amortization of acquired lease intangible costs during 2009, increased occupancy in the Storage Portfolio as well as our discontinued practice of reporting the Storage Portfolio one month in arrears which was based on the historical unavailability of timely financial information. Based on improvements in the Storage Portfolio accounting systems, we report this activity on a current basis. Accordingly, the year ended December 31, 2010 reflects thirteen months of storage activity while the year ended December 31, 2009 reflects twelve months of storage activity (Storage Portfolio Activity).

Expense reimbursements in the Opportunity Funds increased for both real estate taxes and common area maintenance primarily as a result of the 2009 Fund Acquisition and Fund Redevelopment Properties.

Lease termination income in the Core Portfolio for 2009 related to termination fee income received from a former tenant at Absecon Marketplace.

Other in the Core Portfolio in 2009 included $1.7 million resulting from a forfeited sales contract deposit.

Other in the Opportunity Funds during 2009 included $0.9 million received by Fund II in settlement of litigation in connection with a property acquisition.

Operating Expenses	2010				2009			
(dollars in millions)	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable and Other

Property operating	$ 10.5	$ 11.8	$ 10.2	$ (1.5)	$ 12.1	$ 10.1	$ 8.7	$ (1.2)
Real estate taxes	9.0	6.3	2.9		9.3	5.3	2.2	
General and administrative	22.4	13.5	0.1	(15.8)	24.0	13.5	0.1	(15.6)
Depreciation and amortization	16.2	19.4	5.1	(0.6)	17.2	16.5	4.4	(1.5)
Abandonment of project costs						2.5		
Reserve for notes receivable								1.7
Total operating expenses	$ 58.1	$ 51.0	$ 18.3	$ (17.9)	$ 62.6	$ 47.9	$ 15.4	$ (16.6)

The decrease in property operating expenses in the Core Portfolio was primarily attributable to a decrease in bad debt expense in 2010. The increase in property operating expenses in the Opportunity Funds was primarily attributable to the 2009 Fund Acquisition and Fund Redevelopment Properties. The increase in property operating expenses in the Storage Portfolio primarily related to higher operating costs in 2010 following increased occupancy as well as the Storage Portfolio Activity.

The increase in real estate taxes in the Opportunity Funds was primarily attributable to the 2009 Fund Acquisition as well as Fund Redevelopment Properties.

The decrease in general and administrative expense in the Core Portfolio was primarily attributable to reduced compensation expense following staff reductions in 2009.

Depreciation and amortization expense in the Core Portfolio decreased as a result of the write-off of lease intangible costs in connection with a terminated lease in 2009. Depreciation expense in the Opportunity Funds increased $0.3 million as result of the 2009 Acquisition. Amortization expense in the Opportunity Funds increased $2.6 million primarily due to the write-off of deferred financing costs related to refinanced debt in 2010. Depreciation and amortization expense in the Storage Portfolio increased $0.7 million primarily as a result of two self storage properties placed in service during the second quarter 2009.

The $2.5 million abandonment of project costs in the Opportunity Funds in 2009 was attributable to our determination that we most likely would not participate in a specific future development project.

The reserve for notes receivable of $1.7 million in 2009 related to the loss of an anchor tenant at the underlying collateral property.

Other	**2010**				**2009**			
(dollars in millions)	**Core Portfolio**	**Opportunity Funds**	**Self-Storage Portfolio**	**Notes Receivable and Other**	**Core Portfolio**	**Opportunity Funds**	**Self-Storage Portfolio**	**Notes Receivable and Other**
Equity in earnings (losses) of unconsolidated affiliates	$ 0.6	$ 11.8	(1.4)	$	$ 0.7	$ (2.2)	$	$
Impairment of investment in unconsolidated affiliate						(3.8)		
Other interest income				0.4				0.6
Gain from bargain purchase		33.8						
Gain on debt extinguishment					7.1			
Interest and other finance expense	(17.1)	(13.4)	(4.1)	0.1	(18.7)	(8.4)	(5.0)	
Income tax expense	(3.2)	(0.1)	0.4		(1.4)	(0.1)		
Income from discontinued operations				0.4				7.6
(Income) loss attributable to noncontrolling interests in subsidiaries:								
- Continuing operations	(0.3)	(22.6)	0.1	2.5	(0.4)	22.5	(0.5)	1.9
- Discontinued operations				(0.3)				(5.0)

Equity in earnings (losses) of unconsolidated affiliates in the Opportunity Funds increased primarily as a result of an increase in distributions in excess of basis from our Albertson s investment of $9.5 million in 2010 and an increase in our pro-rata share of income from Mervyns in 2010. Equity in earnings (losses) in the Self Storage Portfolio represents the pro-rata share of losses from our unconsolidated investment in the newly-formed self storage management company.

The $3.8 million impairment of investment in unconsolidated affiliate during 2009 was the result of the reduction in value of the underlying property due to the recession and the related reduction in Fund I s carrying value of this investment including a partial guarantee of the mortgage debt.

The $33.8 million gain from bargain purchase was attributable to Fund II s purchase of an unaffiliated membership interest in CityPoint in 2010. Reference is made to Note 2 of the Notes to Consolidated Financial Statements which begin on page F-1 of this Form 10-K for a discussion of this transaction.

The gain on debt extinguishment of $7.1 million was attributable to the purchase of our convertible debt at a discount in 2009.

Total interest expense in the Core Portfolio decreased $1.6 million in 2010. This was the result of a $2.5 million decrease attributable to lower average outstanding borrowings in 2010 offset by a $0.9 million increase attributable to higher average interest rates in 2010. Interest expense in the Opportunity Funds increased $5.0 million in 2010. This was the result of an increase of $2.9 million due to higher average interest rates in 2010, an increase of $1.8 million due to higher average outstanding borrowings in 2010 and $0.3 million of lower capitalized interest in 2010. Interest expense in the Storage Portfolio decreased $0.9 million in 2010. This was primarily attributable to a $1.4 million decrease due to lower average interest rates in 2010. This decrease was offset by $0.3 million of lower capitalized interest in 2010 and an increase of $0.2 million due to higher average outstanding borrowings in 2010.

The variance in the income tax expense in the Core Portfolio primarily related to income taxes at the TRS level for our pro-rata share of income from our Albertson s investment in 2010.

Income from discontinued operations represents activity related to property held for sale in 2010 and property sales in 2009.

(Income) loss attributable to noncontrolling interests in subsidiaries Continuing operations and Discontinued operations primarily represents the noncontrolling interests share of all the Opportunity Funds variances discussed above.

Comparison of the year ended December 31, 2009 (2009) to the year ended December 31, 2008 (2008)

Revenues	**2009**				**2008**			
(dollars in millions)	**Core Portfolio**	**Opportunity Funds**	**Self-Storage Portfolio**	**Notes Receivable and Other**	**Core Portfolio**	**Opportunity Funds**	**Self-Storage Portfolio**	**Notes Receivable and Other**
Rental income	$ 51.2	$ 34.7	$ 9.8	$	$ 51.0	$ 21.4	$ 4.7	$
Mortgage interest income				19.7				11.2
Expense reimbursements	13.7	7.2			14.1	2.7		
Lease termination income	2.8					24.0		
Management fee income (1)				2.0				3.4
Other	1.9	1.4	1.3		0.3		0.8	
Total revenues	$ 69.6	$ 43.3	$ 11.1	$ 21.7	$ 65.4	$ 48.1	$ 5.5	$ 14.6

Note:

(1) Fees earned by us as general partner/managing member of the Opportunity Funds are eliminated in consolidation and adjust the loss (income) attributable to noncontrolling interests and are not reflected above. The balance reflected in the table represents third party fees that are not eliminated in consolidation.

The increase in rental income in the Opportunity Funds primarily related to additional rents from the 2009 Fund Acquisition of $7.5 million and certain Fund Redevelopment Properties. The increase in rental income in the Storage Portfolio related to the February 2008 acquisition of the Storage Post Portfolio (Storage Acquisition) versus a full year of activity for 2009. In addition, the increase in minimum rents in the Storage Portfolio was also attributable to the full amortization of acquired lease intangible costs during 2009.

The increase in mortgage interest income was the result of higher interest earning assets in 2009, primarily from new notes/mezzanine financing investments originated during the second half of 2008.

Expense reimbursements in the Opportunity Funds increased for both real estate taxes and common area maintenance as a result of the 2009 Fund Acquisition as well as certain Fund Redevelopment Properties.

Lease termination income in the Core Portfolio for 2009 related to a termination fee earned from a tenant at Absecon Marketplace. Lease termination income in the Opportunity Funds for 2008 related to a termination fee earned, net of costs, from a tenant at Canarsie Plaza.

Management fee income decreased primarily as a result of lower fees earned of $0.9 million from the CityPoint development project and lower fees from our Klaff management contracts.

Other in the Core Portfolio in 2009 included $1.7 million resulting from a forfeited sales contract deposit.

Other in the Opportunity Funds during 2009 included $0.9 million received by Fund II in settlement of litigation in connection with a property acquisition.

Operating Expenses	2009				2008			
(dollars in millions)	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable and Other
Property operating	$ 12.1	$ 10.1	$ 8.7	$ (1.2)	$ 12.2	$ 6.8	$ 5.3	$ (0.4)
Real estate taxes	9.3	5.3	2.2		8.8	2.0	1.4	
General and administrative	24.0	13.5	0.1	(15.6)	26.0	16.1	0.1	(17.7)
Depreciation and amortization	17.2	16.5	4.4	(1.5)	20.3	9.5	3.0	
Abandonment of project costs		2.5				0.6		
Reserve for notes receivable				1.7				4.4
Total operating expenses	$ 62.6	$ 47.9	$ 15.4	$ (16.6)	$ 67.3	$ 35.0	$ 9.8	$ (13.7)

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The increase in property operating expenses in the Opportunity Funds was primarily the result of the 2009 Fund Acquisition and certain Fund Redevelopment Properties. The increase in property operating expenses in the Storage Portfolio related to the Storage Acquisition.

The increase in real estate taxes in the Opportunity Funds was primarily attributable to the 2009 Fund Acquisition.

The decrease in general and administrative expense in the Core Portfolio was primarily attributable to reduced compensation expense following staff reductions in the second half of 2008 and in the first half of 2009. The decrease in general and administrative expense in the Opportunity Funds related to the reduction in Promote expense attributable to Fund I and Mervyns I. The increase in general and administrative expense in Other primarily related to the reduction in Fund I and Mervyns I Promote expense eliminated for consolidated financial statement presentation purposes.

Depreciation expense in the Core Portfolio decreased $2.4 million in 2009. This was principally a result of increased depreciation expense in 2008 resulting from the write-down of tenant improvements at two properties attributable to the bankruptcy of Circuit City. Amortization expense in the Core Portfolio decreased $0.7 million primarily as a result of lower amortization expense in 2009 associated with the Klaff management contracts. Depreciation expense increased $5.0 million and amortization expense increased $2.0 million in the Opportunity Funds primarily due to the 2009 Fund Acquisition and certain Fund Redevelopment Properties. Depreciation expense and amortization expense increased $1.4 million in the Storage Portfolio primarily as a result of the Storage Acquisition. Depreciation and amortization expense decreased $1.5 million in Other as a result of depreciation associated with the elimination of capitalizable costs within the consolidated group.

The $2.5 million abandonment of project costs in 2009 was attributable to our determination that we most likely would not participate in a specific future development project.

The reserve for notes receivable of $1.7 million in 2009 related to the loss of an anchor tenant at the underlying collateral property. The 2008 reserve for notes receivable of $4.4 million related to a mezzanine loan.

Other	**2009**				**2008**			
(dollars in millions)	**Core Portfolio**	**Opportunity Funds**	**Self-Storage Portfolio**	**Notes Receivable and Other**	**Core Portfolio**	**Opportunity Funds**	**Self-Storage Portfolio**	**Notes Receivable and Other**
Equity in earnings (losses) of unconsolidated affiliates	$ 0.7	$ (2.2)	$	$	$	$ 19.9	$	$
Impairment of investment in unconsolidated affiliate		(3.8)						
Other interest income				0.6				3.4
Gain on debt extinguishment	7.1				1.5			
Interest and other finance expense	(18.7)	(8.4)	(5.0)		(19.8)	(5.7)	(3.4)	
Gain on sale of land					0.8			
Income tax expense	(1.4)	(0.1)			(3.4)			
Income from discontinued operations				7.6				8.9
(Income) loss attributable to noncontrolling interests in subsidiaries:								
- Continuing operations	(0.4)	22.5	(0.5)	1.9	0.2	(15.8)	0.4	3.6
- Discontinued operations				(5.0)				(0.9)

Equity in earnings (losses) of unconsolidated affiliates in the Opportunity Funds decreased primarily as a result of our pro-rata share of gains from the sale of Mervyns locations in 2008 of $10.4 million, a decrease in distributions in excess of basis from our Albertson s investment of $7.9 million in 2009 and our pro-rata share of gain from the sale of the Haygood Shopping Center of $3.4 million in 2008.

The $3.8 million impairment of investment in unconsolidated affiliate during 2009 was the result of the reduction in value of the underlying property due to the recession and the related reduction in Fund I s carrying value of this investment including a partial guarantee of the mortgage debt.

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Other interest income decreased in 2009 as a result of lower cash balances during the year and lower average interest rates on cash and cash equivalents.

The gain on debt extinguishment of $7.1 million in 2009 and $1.5 million in 2008 was attributable to the purchase of our convertible debt at a discount.

Interest expense in the Core Portfolio decreased $1.1 million in 2009. This was primarily the result of lower interest expense related to the purchase of the Company s convertible notes payable offset by a $0.7 million write-off of the unamortized premium related to the repayment of a mortgage note payable during 2008. Interest expense in the Opportunity Funds increased $2.7 million in 2009. This was primarily attributable to an increase of $4.2 million due to higher average outstanding borrowings in 2009 and $0.6 million of lower capitalized interest in 2009. These increases were offset by a $2.2 million decrease related to lower average interest rates in 2009. Interest expense in the Storage Portfolio increased $1.6 million in 2009. This was primarily due to an increase of $0.9 million due to higher average outstanding borrowings in 2009 as well as an increase of $0.8 million due to higher average interest rates in 2009.

The gain on sale of land of $0.8 million in the Core Portfolio related to the sale of a land parcel at Bloomfield Town Square in 2008.

The variance in the income tax expense in the Core Portfolio primarily related to income taxes at the TRS level for our share of income/gains from our Mervyns and Albertson s investments in 2008.

Income from discontinued operations represents activity related to properties sold in 2009 and 2008.

(Income) loss attributable to noncontrolling interests in subsidiaries Continuing operations and Discontinued operations primarily represents the noncontrolling interests share of all the Opportunity Funds variances discussed above.

RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

	For the Years Ended December 31,				
(dollars in thousands)	**2010**	**2009**	**2008**	**2007**	**2006**
Net income attributable to Common Shareholders	$ 30,057	$ 31,133	$ 25,068	$ 25,346	$ 38,920
Depreciation of real estate and amortization of leasing costs:					
Consolidated affiliates, net of noncontrolling interests share	18,445	18,847	18,519	19,669	20,206
Unconsolidated affiliates	1,561	1,604	1,687	1,736	1,806
Income attributable to noncontrolling interests in operating partnership (1)	377	464	437	614	803
Gain on sale of properties (net of noncontrolling interests share)					
Consolidated affiliates		(2,435)	(7,182)	(5,271)	(20,974)
Unconsolidated affiliates			(565)		(901)
Extraordinary item (net of noncontrolling interests share and income taxes) (3)				(3,677)	
Funds from operations (2)	50,440	49,613	37,964	38,417	39,860
Add back: Extraordinary item, net (3)				3,677	
Funds from operations, adjusted for extraordinary item	$ 50,440	$ 49,613	$ 37,964	$ 42,094	$ 39,860
Adjusted Funds From Operations per Share - Diluted					
Weighted average number of Common Shares and OP Units	40,876	38,913	34,940	34,924	35,087
Diluted funds from operations, per share	$ 1.23	$ 1.28	$ 1.09	$ 1.21	$ 1.14

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Notes:

(1) Represents income attributable to Common OP Units and does not include distributions paid to Series A and B Preferred OP Unitholders.

(2) We consider funds from operations (FFO) as defined by the National Association of Real Estate Investment Trusts (NAREIT) to be an appropriate supplemental disclosure of operating performance for an equity REIT due to its widespread acceptance and use within the REIT and analyst communities. FFO is presented to assist investors in analyzing our performance. It is helpful as it excludes various items included in net income that are not indicative of the operating performance, such as gains (losses) from sales of depreciated property and depreciation and amortization. However, our method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles (GAAP) and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating our performance or to cash flows as a measure of liquidity. Consistent with the NAREIT definition, we define FFO as net income (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

(3) This item represents our share of an extraordinary gain from our investment in Albertson s, which recorded an extraordinary gain in connection with the allocation of purchase price to assets acquired. We consider this to be a private-equity style investment in an operating businesses as opposed to real estate. Accordingly, all gains and losses from this investment are included in FFO, which we believe provides a more accurate reflection of our operating performance.

LIQUIDITY AND CAPITAL RESOURCES

Uses of Liquidity

Our principal uses of liquidity are (i) distributions to our shareholders and OP unit holders, (ii) investments which include the funding of our capital committed to the Opportunity Funds and property acquisitions and redevelopment/re-tenanting activities within our Core Portfolio, and (iii) debt service and loan repayments, including the repurchase of our Convertible Notes.

Distributions

In order to qualify as a REIT for Federal income tax purposes, we must currently distribute at least 90% of our taxable income to our shareholders. For the year ended December 31, 2010, we paid dividends and distributions on our Common Shares and Common OP Units totaling $29.7 million. In addition, in December of 2008, our Board of Trustees approved a special dividend of approximately $0.55 per share, or $18.0 million in the aggregate, which was associated with taxable gains arising from property dispositions in 2008, which was paid on January 30, 2009, to shareholders of record on December 31, 2008. Ninety percent of the special dividend was paid with the issuance of 1.3 million Common Shares and 10%, or $1.8 million, was paid in cash.

Investments

Fund I and Mervyns I

Fund I and Mervyns I have returned all invested capital and accumulated preferred return thus triggering our Promote in all future Fund I and Mervyns I earnings and distributions. As of December 31, 2010, $86.6 million has been invested in Fund I and Mervyns I, of which the Operating Partnership contributed $19.2 million.

As of December 31, 2010, Fund I currently owned, or had ownership interests in 20 assets comprising approximately 0.9 million square feet as further discussed in PROPERTY ACQUISITIONS in Item 1 of this Form 10-K.

In addition, we, along with our Fund I investors have invested in Mervyns as discussed in Item 1. of this Form 10-K.

Fund II and Mervyns II

To date, Fund II s primary investment focus has been in the New York Urban/Infill Redevelopment Initiative and the Retailer Controlled Property Venture. As of December 31, 2010, $265.2 million has been invested in Fund II, of which the Operating Partnership contributed $53.0 million. The remaining capital balance of $34.8 million is expected to be utilized to complete development activities for existing Fund II investments.

Fund II has invested in the New York Urban/Infill Redevelopment and the RCP Venture initiatives and other investments as further discussed in PROPERTY ACQUISITIONS in Item 1, of this Form 10-K.

New York Urban/Infill Redevelopment Initiative

In September 2004, we, through Fund II, launched our New York Urban/Infill Redevelopment Initiative. During 2004, Fund II, together with an unaffiliated partner, P/A Associates, LLC (P/A), formed Acadia P/A Holding Company, LLC (Acadia-P/A) for the purpose of acquiring, constructing, developing, owning, operating, leasing and managing certain mixed-use real estate properties in the New York City metropolitan area which include a retail component. To date P/A has invested $2.2 million and Fund II, the managing member, has agreed to invest the balance.

To date, Fund II has invested in nine New York Urban/Infill Redevelopment Initiative construction projects, eight of which were made through Acadia-P/A, as follows:

				Redevelopment (dollars in millions)		
Property	**Location**	**Year acquired**	**Costs to date**	**Anticipated additional costs**	**Estimated construction completion**	**Square feet upon completion**
Liberty Avenue (1)	Queens	2005	$ 15.5	$	Completed	125,000
216th Street	Manhattan	2005	27.7		Completed	60,000
Fordham Place	Bronx	2004	124.5	9.8	Completed	276,000
Pelham Manor Shopping Plaza (1)	Westchester	2004	61.4	2.6	Completed	320,000
161st Street (2)	Bronx	2005	61.6	5.1	TBD	230,000
Atlantic Avenue (3)	Brooklyn	2007	22.0	0.1	Completed	110,000
Canarsie Plaza	Brooklyn	2007	80.3	9.8	Completed	279,000
CityPoint (4)	Brooklyn	2007	81.8	118.2	TBD	550,000
Sherman Plaza	Manhattan	2005	33.4	TBD	TBD	TBD
Total			$ 508.2	$ 145.6		1,950,000

Notes:
TBD To be determined
(1) Acadia-P/A acquired a ground lease interest at this property.
(2) Currently operating but redevelopment activities have commenced.
(3) P/A is not a partner in this project.
(4) Fund II acquired a ground lease interest at this property.

On June 30, 2010, Fund II acquired all of CUIP s 75.25% interests in CityPoint for $9.2 million, consisting of a current cash payment of $2.0 million and deferred payments, potentially through 2020, aggregating $7.2 million, as well as the assumption of CUIP s share of the first mortgage debt representing $19.6 million. Reference is made to Note 2 in our Consolidated Financial Statements, which begin on Page F-1 of this Form 10-K for a further discussion of this transaction.

RCP Venture

See Property Acquisitions in Item 1. of this Form 10-K for a table summarizing the RCP Venture investments from inception through December 31, 2010.

Fund III

During 2007, we formed Fund III with 14 institutional investors, including all of the investors from Fund I and a majority of the investors from Fund II with $502.5 million of committed discretionary capital. As of December 31, 2010, $96.5 million has been invested in Fund III, of which the Operating Partnership contributed $19.2 million.

Fund III has invested in the New York Urban/Infill Redevelopment Initiatives and other investments as further discussed in PROPERTY ACQUISITIONS in Item 1 of this Form 10-K. The projects are as follows:

Property	**Location**	**Year acquired**	**Costs to date**	**Anticipated additional costs**	**Estimated construction completion**	**Square feet upon completion**

Sheepshead Bay	Brooklyn, NY	2007	$ 22.8	$ TBD	TBD	TBD
125 Main Street	Westport, CT	2007	18.7	6.7	2nd half 2011	26,000
Total			$ 41.5	$ 6.7		26,000

Notes:

TBD To be determined

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Other Fund III Investments

During February 2008, Acadia, through Fund III, and in conjunction with an unaffiliated partner, Storage Post, acquired a portfolio of eleven self-storage properties from Storage Post s institutional investors for approximately $174.0 million. The properties are located throughout New York and New Jersey.

During January 2009, Fund III purchased Cortlandt Towne Center for $78.0 million. The property is a 642,000 square foot shopping center located in Westchester County, NY, a trade area with high barriers to entry for regional and national retailers.

During December 2010, Fund III, in a joint venture with an unaffiliated partner, acquired the 255,200 square foot White City Shopping Center in Shrewsbury, Massachusetts for $56.0 million.

During February 2011, Fund III, in a joint venture with an unaffiliated partner, acquired a three property portfolio (the Portfolio) for an aggregate purchase price of $51.9 million with $20.6 million of in-place mortgage financing assumed at closing. The Portfolio consists of three street-retail properties, aggregating 61,000 square feet, and is located in South Miami Beach, Florida.

During February 2011, Fund III, in a joint venture with an unaffiliated partner, acquired a 64,600 square foot single tenant retail property located in Silver Springs, Maryland, for approximately $9.8 million.

Notes Receivable

At December 31, 2010, our notes receivable, net aggregated $89.2 million, with accrued interest thereon of $7.6 million, and were collateralized by the underlying properties, the borrower s ownership interest in the entities that own the properties and/or by the borrower s personal guarantee. Effective interest rates on our notes receivable ranged from 10.0% to 24.0% with maturities through January 2017.

During December 2009, we made a loan for $8.6 million which bears interest at 14.5% and matures on June 30, 2011.

Other Investments

Acquisitions made during 2010, 2009 and 2008 are discussed in PROPERTY ACQUISITIONS in Item 1 of this Form 10-K:

Core Portfolio Property Redevelopment and Expansion

Our Core Portfolio redevelopment program focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment. We currently have two properties in the early stages of redevelopment, Ledgewood Mall and Third Avenue.

Purchase of Convertible Notes

Purchases of the Notes has been another use of our liquidity. During 2009, we purchased an additional $57.0 million in face amount of our outstanding convertible notes for $46.7 million.

Share Repurchase

We have an existing share repurchase program that authorizes management, at its discretion, to repurchase up to $20.0 million of our outstanding Common Shares. The program may be discontinued or extended at any time and there is no assurance that we will purchase the full amount authorized. Under this program we have repurchased 2.1 million Common Shares, none of which were repurchased after December 2001. As of December 31, 2010, management may repurchase up to approximately $7.5 million of our outstanding Common Shares under this program.

SOURCES OF LIQUIDITY

We intend on using Fund III, as well as new funds that we may establish in the future, as the primary vehicles for our future acquisitions, including potential investments in the RCP Venture and New York Urban/Infill Redevelopment Initiative. Additional sources of capital for funding property acquisitions, redevelopment, expansion and re-tenanting and RCP Venture investments, are expected to be obtained primarily from (i) the issuance of public equity or debt instruments, (ii) cash on hand and cash flow from operating activities, (iii) additional debt financings, (iv) noncontrolling interests unfunded capital commitments of $325.2 million for Fund III and (v) future sales of existing properties.

During 2010, Fund II received capital contributions of $41.9 million to fund redevelopment projects and partially pay down a line of credit facility.

As of December 31, 2010, we had cash and cash equivalents on hand of $120.6 million and $103.9 million of additional capacity under existing debt facilities.

Shelf Registration Statements and Issuance of Equity

During April 2009, we filed a shelf registration on Form S-3 providing for offerings of up to a total of $500.0 million of Common Shares, Preferred Shares and debt securities. During April 2009, we issued 5.75 million Common Shares and generated net proceeds of approximately $65.0 million. The proceeds were primarily used to purchase a portion of our outstanding convertible notes payable and pay down existing lines of credit. Following this issuance, we have remaining capacity under this registration statement to issue up to approximately $430.0 million of these securities.

Asset Sales

Asset sales are an additional source of liquidity for us. In March 2010, we sold the Sterling Heights Shopping Center, which was owned through Fund I, for $2.3 million. During November 2009, we sold Blackman Plaza for $2.5 million, which resulted in a gain on sale of $1.5 million. During February 2009, we sold six locations in our Fund I s Kroger/Safeway Portfolio for $14.6 million of which Fund I s share of the sales proceeds amounted to $8.1 million after the repayment of the mortgage debt on these properties. During April 2008, we sold a residential complex located in Winston-Salem, North Carolina. These sales are discussed in ASSET SALES AND CAPITAL/ASSET RECYCLING in Item 1 of this Form 10-K.

Notes Receivable and Preferred Equity Repayment

Reference is made to Note 5 in our Consolidated Financial Statements, which begin on Page F-1 of this Form 10-K, for an overview of our notes receivable and preferred equity investment. During 2010, the following payments were received on these investements:

During April 2010, we received a $2.1 million first mortgage loan payment.

During September 2010, we received the full repayment of our $40.0 million preferred equity investment, which was secured by a portfolio of 18 properties located in Georgetown, Washington D.C., along with $9.4 million of preferred return.

Financing and Debt

At December 31, 2010, mortgage and convertible notes payable aggregated $854.9 million, net of unamortized premium of $0.1 million, and unamortized discount of $1.1 million, and were collateralized by 29 properties and related tenant leases. Interest rates on our outstanding indebtedness ranged from 0.86% to 7.34% with maturities that ranged from March 2011 to November 2032. Taking into consideration $71.5 million of notional principal under variable to fixed-rate swap agreements currently in effect, $415.0 million of the portfolio, or 49%, was fixed at a 5.7% weighted average interest rate and $439.9 million, or 51% was floating at a 3.4% weighted average interest rate. There is $385.7 million of debt maturing in 2011 at weighted average interest rates of 2.8%. Of this amount, $4.8 million represents scheduled annual amortization. The loans relating to $159.7 million of the 2011 maturities provide for extension options, which we believe we will be able to exercise. As it relates to maturities, we may not have sufficient cash on hand to repay such indebtedness and, as such, we may have to refinance this indebtedness or select other alternatives based on market conditions at that time.

The following table sets forth certain information pertaining to the Company s secured credit facilities:

(dollars in millions) **Borrower**	**Total available credit facilities**	**Amount borrowed as of December 31, 2009**	**2010 net borrowings (repayments) during the year ended December 31, 2010**	**Amount borrowed as of December 31, 2010**	**Letters of credit outstanding as of December 31, 2010**	**Amount available under credit facilities as of December 31, 2010**
Acadia Realty, LP	$ 64.5	$ 30.0	$ (29.0)	$ 1.0	$ 8.6	$ 54.9
Acadia Realty, LP		2.0	(2.0)			
Fund II	40.0	48.2	(8.2)	40.0		
Fund III	221.0	139.5	32.0	171.5	0.5	49.0

Total	$	325.5	$	219.7	$	(7.2)	$	212.5	$	9.1	$	103.9

Reference is made to Note 8 and Note 9 to our Consolidated Financial Statements, which begin on Page F-1 of this Form 10-K, for a summary of the financing and refinancing transactions since December 31, 2009.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

At December 31, 2010, maturities on our mortgage notes ranged from March 2011 to November 2032. In addition, we have non-cancelable ground leases at 24 of our shopping centers. We lease space for our White Plains corporate office for a term expiring in 2015. The following table summarizes our debt maturities, obligations under non-cancelable operating leases and construction commitments as of December 31, 2010:

		Payments due by period			
Contractual obligations:	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
(dollars in millions)					
Future debt maturities [1]	$ 855.9	$ 385.7	$ 156.8	$ 143.7	$ 169.7
Interest obligations on debt	120.7	33.2	42.1	28.4	17.0
Operating lease obligations	171.6	5.4	12.0	11.0	143.2
Construction commitments [2]	31.1	31.1			
Total	$ 1,179.3	$ 455.4	$ 210.9	$ 183.1	$ 329.9

Notes:
[1] Includes $1.0 million of unamortized discount related to our convertible notes payable.
[2] In conjunction with the redevelopment of our Core Portfolio and Opportunity Fund properties, we have entered into construction commitments with general contractors. We intend to fund these requirements with existing liquidity.

OFF BALANCE SHEET ARRANGEMENTS

We have investments in the following joint ventures for the purpose of investing in operating properties. We account for these investments using the equity method of accounting as we have noncontrolling interests. As such, our financial statements reflect our share of income and loss from but not the assets and liabilities of these joint ventures.

Reference is made to Note 4 to our Consolidated Financial Statements, which begin on page F-1 of this Form 10-K, for a discussion of our unconsolidated investments. Our pro-rata share of unconsolidated debt related to those investments is as follows:

(dollars in millions) Investment	Pro-rata share of mortgage debt Operating Partnership	Interest rate at December 31, 2010	Maturity date
Crossroads	$ 30.1	5.37%	December 2014
Brandywine	36.9	5.99%	July 2016
White City	6.7	2.86%	December 2017
Total	$ 73.7		

In addition, we have arranged for the provision of three separate letters of credit in connection with certain leases and investments. As of December 31, 2010 there were no outstanding balances under any of the letters of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be $9.1 million.

In addition to our derivative financial instruments, one of our unconsolidated affiliates, White City, was a party to an interest rate LIBOR swap with a notional value of $20 million, which effectively fixes the interest rate at 5.5% and expires in December 2017. Our pro-rata share of the fair value of the derivative liability totaled $0.1 million at December 31, 2010.

HISTORICAL CASH FLOW

The following table compares the historical cash flow for the year ended December 31, 2010 (2010) with the cash flow for the year ended December 31, 2009 (2009).

	Years Ended December 31,		
	2010	2009	Variance
(dollars in millions)			
Net cash provided by operating activities	$ 44.4	$ 47.5	$ (3.1)
Net cash used in investing activities	(60.7)	(123.4)	62.7
Net cash provided by financing activities	43.1	83.0	(39.9)
Totals	$ 26.8	$ 7.1	$ 19.7

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A discussion of the significant changes in cash flow for 2010 versus 2009 is as follows:

The decrease of $3.1 million in net cash provided by operating activities was primarily attributable to the following:

Items which contributed to a decrease in cash from operating activities:
- Additional cash used during 2010 to fund an escrow account with the proceeds from the CityPoint bond financing

Items which contributed to an increase in cash from operating activities:
- An increase in distribution (primarily Albertson s) of operating income from unconsolidated affiliates during 2010

The decrease of $62.7 million of net cash used in investing activities primarily resulted from the following:

Items which contributed to a decrease in cash from investing activities:
- An additional $13.5 million in investments and advances to unconsolidated affiliates during 2010
- An additional $12.0 million in proceeds from the sale of properties during 2009

Items which contributed to an increase in cash from investing activities:
- A decrease of $54.3 million in expenditures for real estate, development and tenant installations during 2010
- An increase of $28.4 million in repayments of notes receivable during 2010
- A decrease of $9.4 million in advances of notes receivable during 2010

The $39.9 million decrease in net cash provided by financing activities resulted primarily from the following:

Items which contributed to a decrease in cash from financing activities:
- A decrease of $84.2 million in borrowings during 2010
- $65.2 million of additional cash from the issuance of Common Shares, net of costs, during 2009

Items which contributed to an increase in cash from financing activities:
- A decrease of $54.8 million in repayments of mortgage debt during 2010
- A decrease of $46.5 million in repayments of convertible notes during 2010
- $7.9 million of additional contributions from noncontrolling interests during 2010

CRITICAL ACCOUNTING POLICIES

Management s discussion and analysis of financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these Consolidated Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the significant judgments and estimates used by us in the preparation of our Consolidated Financial Statements.

Valuation of Property Held for Use and Sale

On a quarterly basis, we review the carrying value of both properties held for use and for sale. We perform the impairment analysis by calculating and reviewing net operating income on a property-by-property basis. We evaluate leasing projections and perform other analyses to conclude whether an asset is impaired. We record impairment losses and reduce the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where we do not expect to recover our carrying costs on properties held for use, we reduce our carrying cost to fair value. For properties held for sale, we reduce our carrying value to the fair value less costs to sell. For the years ended December 31, 2010, 2009 and 2008, no impairment losses on our properties were recognized. Management does not believe that the value of any properties in its portfolio was impaired as of December 31, 2010.

Investments in and Advances to Unconsolidated Joint Ventures

The Company periodically reviews its investment in unconsolidated joint ventures for other than temporary declines in market value. Any decline that is not expected to be recovered in the next twelve months is considered other than temporary and an impairment charge is recorded as a reduction in the carrying value of the investment. During the year ended December 31, 2009, the Company recorded a $3.8 million impairment reserve related to a Fund I unconsolidated joint venture. No impairment charges related to the Company s investment in unconsolidated joint ventures were recognized for the years ended December 31, 2010 and 2008.

Bad Debts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make payments on arrearages in billed rents, as well as the likelihood that tenants will not have the ability to make payments on unbilled rents including estimated expense recoveries. We also maintain a reserve for straight-line rent receivables. For the years ended December 31, 2010 and 2009, the allowance for doubtful accounts totaled $7.5 million and $7.0 million, respectively. If the financial condition of our tenants were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Real Estate

Real estate assets are stated at cost less accumulated depreciation. Expenditures for acquisition, development, construction and improvement of properties, as well as significant renovations are capitalized. Interest costs are capitalized until construction is substantially complete. Construction in progress includes costs for significant property expansion and redevelopment. Depreciation is computed on the straight-line basis over estimated useful lives of 30 to 40 years for buildings, the shorter of the useful life or lease term for tenant improvements and five years for furniture, fixtures and equipment. Expenditures for maintenance and repairs are charged to operations as incurred.

Upon acquisitions of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805 Business Combinations and ASC Topic 350 Intangibles Goodwill and Other, and allocate purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

Revenue Recognition and Accounts Receivable

Leases with tenants are accounted for as operating leases. Minimum rents are recognized on a straight-line basis over the term of the respective leases, beginning when the tenant takes possession of the space. Certain of these leases also provide for percentage rents based upon the level of sales achieved by the tenant. Percentage rent is recognized in the period when the tenants sales breakpoint is met. In addition, leases typically provide for the reimbursement to us of real estate taxes, insurance and other property operating expenses. These reimbursements are recognized as revenue in the period the expenses are incurred.

We make estimates of the uncollectability of our accounts receivable related to tenant revenues. An allowance for doubtful accounts has been provided against certain tenant accounts receivable that are estimated to be uncollectible. See Bad Debts above. Once the amount is ultimately deemed to be uncollectible, it is written off.

Notes Receivable and Preferred Equity Investment

Real estate notes receivable and preferred equity investments are intended to be held to maturity and are carried at cost. Interest income from notes receivable and preferred equity investments are recognized on the effective interest method over the expected life of the loan. Under the effective interest method, interest or fees to be collected at the origination of the loan or the payoff of the loan is recognized over the term of the loan as an adjustment to yield.

Allowances for real estate notes receivable and preferred equity investments are established based upon management s quarterly review of the investments. In performing this review, management considers the estimated net recoverable value of the loan as well as other factors, including the fair value of any collateral, the amount and status of any senior debt, and the prospects for the borrower. Because this determination is based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized from the loans may differ materially from the carrying value at the balance sheet date. Interest income recognition is generally suspended for loans when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the suspended loan becomes contractually current and performance is demonstrated to be resumed.

During 2009, we provided a $1.7 million reserve on a note receivable as a result of the loss of an anchor tenant at the underlying collateral property.

During 2008, we provided a $4.4 million reserve on a note receivable collateralized by an interest in an entity owning retail complexes associated with seven public rest stops along the toll roads in and around Chicago, Illinois. The note and all accrued interest was subsequently cancelled during 2009.

INFLATION

Our long-term leases contain provisions designed to mitigate the adverse impact of inflation on our net income. Such provisions include clauses enabling us to receive percentage rents based on tenants gross sales, which generally increase as prices rise, and/or, in certain cases, escalation clauses, which generally increase rental rates during the terms of the leases. Such escalation clauses are often related to increases in the consumer price index or similar inflation indexes. In addition, many of our leases are for terms of less than ten years, which permits us to seek to increase rents upon re-rental at market rates if current rents are below the then existing market rates. Most of our leases require the tenants to pay their share of operating expenses, including common area maintenance, real estate taxes, insurance and utilities, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Reference is made to Notes to our Consolidated Financial Statements, which begin on page F-1 of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information as of December 31, 2010

Our primary market risk exposure is to changes in interest rates related to our mortgage debt. See Note 8 to our Consolidated Financial Statements, which begin on page F-1 of this Form 10-K, for certain quantitative details related to our mortgage debt.

Currently, we manage our exposure to fluctuations in interest rates primarily through the use of fixed-rate debt and interest rate swap agreements. As of December 31, 2010, we had total mortgage and convertible notes payable of $854.9 million of which $415.0 million, or 49% was fixed-rate, inclusive of debt with rates fixed through the use of derivative financial instruments, and $439.9 million, or 51%, was variable-rate based upon LIBOR rates plus certain spreads. As of December 31, 2010, we were a party to seven interest rate swap transactions and one interest rate cap transaction to hedge our exposure to changes in interest rates with respect to $71.5 million and $28.9 million of LIBOR-based variable-rate debt, respectively. In addition, one of our unconsolidated partnerships was a party to an interest rate swap transaction with respect to $20.0 million of LIBOR-based variable-rate debt.

The following table sets forth information as of December 31, 2010 concerning our long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (dollars in millions):

Consolidated mortgage debt:

Year	Scheduled amortization	Maturities	Total	Weighted average interest rate
2011	$ 4.8	$ 379.8	$ 384.6	2.8%
2012	4.1	49.3	53.4	5.6%
2013	4.3	99.2	103.5	3.6%
2014	2.2	62.3	64.5	5.2%
2015	1.9	77.4	79.3	3.2%
Thereafter	7.6	162.0	169.6	5.8%
	$ 24.9	$ 830.0	$ 854.9	

Mortgage debt in unconsolidated partnerships (at our pro-rata share):

Year	Scheduled amortization	Maturities	Total	Weighted average interest rate
2011	$ 0.1	$	$ 0.1	n/a%
2012	0.5		0.5	n/a%
2013	0.5		0.5	n/a%
2014	0.5		0.5	n/a%
2015	0.5	28.0	28.5	5.4%
Thereafter		43.6	43.6	5.5%
	$ 2.1	$ 71.6	$ 73.7	

$384.6 million of our total consolidated debt and $0.1 million of our pro-rata share of unconsolidated outstanding debt will become due in 2011. $53.4 million of our total consolidated debt and $0.5 million of our pro-rata share of unconsolidated debt will become due in 2012. As we intend on refinancing some or all of such debt at the then-existing market interest rates, which may be greater than the current interest rate, our interest expense would increase by approximately $4.4 million annually if the interest rate on the refinanced debt increased by 100 basis points. After giving effect to noncontrolling interests, the Company s share of this increase would be $1.5 million. Interest expense on our variable debt of $439.9 million, net of variable to fixed-rate swap agreements currently in effect, as of December 31, 2010 would increase $4.4 million if LIBOR increased by 100 basis points. After giving effect to noncontrolling interests, the Company s share of this increase would be $0.6 million. We may seek additional variable-rate financing if and when pricing and other commercial and financial terms warrant. As such, we would consider hedging against the interest rate risk related to such additional variable-rate debt through interest rate swaps and protection agreements, or other means.

Based on our outstanding debt balances as of December 31, 2010, the fair value of our total consolidated outstanding debt would decrease by approximately $12.6 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding debt would increase by approximately $13.8 million.

As of December 31, 2010 and 2009, we had notes receivable and preferred equity investments of $89.2 million and $125.2 million, respectively. We determined the estimated fair value of our notes receivable and preferred equity investments as of December 31, 2010 and 2009 were $90.6 million and $126.4 million, respectively, by discounting future cash receipts utilizing a discount rate equivalent to the rate at which similar notes receivable would be originated under conditions then existing.

Based on our outstanding notes receivable and preferred equity investments balances as of December 31, 2010, the fair value of our total outstanding notes receivable and preferred equity investments would decrease by approximately $0.5 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding notes receivable and preferred equity investments would increase by approximately $0.5 million.

Summarized Information as of December 31, 2009

As of December 31, 2009, we had total mortgage and convertible notes payable of $780.1 million of which $439.0 million, or 56% was fixed-rate, inclusive of interest rate swaps, and $341.1 million, or 44%, was variable-rate based upon LIBOR plus certain spreads. As of December 31, 2009, we were a party to eight interest rate swap transactions and one interest rate cap transaction to hedge our exposure to changes in interest rates with respect to $83.4 million and $30.0 million of LIBOR-based variable-rate debt, respectively.

Interest expense on our variable debt of $341.1 million as of December 31, 2009 would have increased $3.4 million if LIBOR increased by 100 basis points. Based on our outstanding debt balances as of December 31, 2009, the fair value of our total outstanding debt would have decreased by approximately $18.3 million if interest rates increased by 1%. Conversely, if interest rates decreased by 1%, the fair value of our total outstanding debt would have increased by approximately $20.5 million.

Changes in Market Risk Exposures from 2009 to 2010

Our interest rate risk exposure from December 31, 2009 to December 31, 2010 has increased, as we had $341.1 million in variable-rate debt (or 44% of our total debt) at December 31, 2009, as compared to $439.9 million (or 51% of our total debt) in variable-rate debt at December 31, 2010. In addition, the amount of our total debt increased from $780.1 million at December 31, 2009 to $854.9 million at December 31, 2010. This increased amount of debt could expose us to greater fluctuations in the fair value of our debt.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements beginning on page F-1 are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(i) Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of management including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2010 to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(ii) Internal Control Over Financial Reporting

(a) Management s Annual Report on Internal Control Over Financial Reporting

Management of Acadia Realty Trust is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13(a)-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2010 as required by the Securities Exchange Act of 1934 Rule 13(a)-15(c). In making this assessment, we used the criteria set forth in the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Based on our evaluation under the COSO criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2010 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

BDO USA, LLP, an independent registered public accounting firm that audited our Financial Statements included in this Annual Report, has issued an attestation report on our internal control over financial reporting as of December 31, 2010, which appears in paragraph (b) of this Item 9A.

Acadia Realty Trust
White Plains, New York
February 28, 2011

(b) Attestation report of the independent registered public accounting firm

The Shareholders and Trustees of
Acadia Realty Trust

We have audited Acadia Realty Trust and subsidiaries internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Acadia Realty Trust and subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on a company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Acadia Realty Trust and subsidiaries maintained in all material respects effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Acadia Realty Trust and subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2010 and our report dated February 28, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
February 28, 2011

(c) Changes in internal control over financial reporting

There was no change in our internal control over financial reporting during our fourth fiscal quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None

PART III

In accordance with the rules of the SEC, certain information required by Part III is omitted and is incorporated by reference into this Form 10-K from our definitive proxy statement relating to our 2011 annual meeting of stockholders (our 2011 Proxy Statement) that we intend to file with the SEC no later than April 29, 2011.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information under the following headings in the 2011 Proxy Statement is incorporated herein by reference:

PROPOSAL 1 ELECTION OF TRUSTEES
MANAGEMENT
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

ITEM 11. EXECUTIVE COMPENSATION.

The information under the following headings in the 2011 Proxy Statement is incorporated herein by reference:

ACADIA REALTY TRUST COMPENSATION COMMITTEE REPORT
COMPENSATION DISCUSSION AND ANALYSIS
EXECUTIVE AND TRUSTEE COMPENSATION
COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information under the heading SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT in the 2011 Proxy Statement is incorporated herein by reference.

The information under Item 5 of this Form 10-K under the heading (c) Securities authorized for issuance under equity compensation plans is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information under the following headings in the 2011 Proxy Statement is incorporated herein by reference:

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
PROPOSAL 1 ELECTION OF TRUSTEES Trustee Independence

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information under the heading AUDIT COMMITTEE INFORMATION in the 2011 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

1. *Financial Statements*: See Index to Financial Statements at page F-1 below.
2. *Financial Statement Schedule*: See Schedule III Real Estate and Accumulated Depreciation at page F-40 below.
3. *Exhibits*: The index of exhibits below is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

ACADIA REALTY TRUST
(Registrant)

By: /s/ Kenneth F. Bernstein
Kenneth F. Bernstein
Chief Executive Officer,
President and Trustee

By: /s/ Michael Nelsen
Michael Nelsen
Senior Vice President and
Chief Financial Officer

By: /s/ Jonathan W. Grisham
Jonathan W. Grisham
Senior Vice President and
Chief Accounting Officer

Dated: February 28, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Kenneth F. Bernstein (Kenneth F. Bernstein)	Chief Executive Officer, President and Trustee (Principal Executive Officer)	February 28, 2011
/s/ Michael Nelsen (Michael Nelsen)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2011
/s/ Jonathan W. Grisham (Jonathan W. Grisham)	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 28, 2011
/s/ Douglas Crocker II (Douglas Crocker II)	Trustee	February 28, 2011
/s/ Lorrence T. Kellar (Lorrence T. Kellar)	Trustee	February 28, 2011
/s/ Wendy Luscombe (Wendy Luscombe)	Trustee	February 28, 2011
/s/ William T. Spitz (William T. Spitz)	Trustee	February 28, 2011
/s/ Lee S. Wielansky (Lee S. Wielansky)	Trustee	February 28, 2011

EXHIBIT INDEX

The following is an index to all exhibits filed with the Annual Report on Form 10-K other than those incorporated by reference herein:

Exhibit No.	Description
3.1	Declaration of Trust of the Company, as amended (1)
3.2	Fourth Amendment to Declaration of Trust (4)
3.3	Amended and Restated By-Laws of the Company (22)
3.4	Fifth Amendment to Declaration of Trust (32)
3.5	First Amendment the Amended and Restated Bylaws of the Company (32)
4.1	Voting Trust Agreement between the Company and Yale University dated February 27, 2002 (14)
10.1	1999 Share Option Plan (8) (21)
10.2	2003 Share Option Plan (16) (21)
10.3	Form of Share Award Agreement (17) (21)
10.4	Form of Registration Rights Agreement and Lock-Up Agreement (18)
10.5	Registration Rights and Lock-Up Agreement (RD Capital Transaction) (11)
10.6	Registration Rights and Lock-Up Agreement (Pacesetter Transaction) (11)
10.7	Contribution and Share Purchase Agreement dated as of April 15, 1998 among Mark Centers Trust, Mark Centers Limited Partnership, the Contributing Owners and Contributing Entities named therein, RD Properties, L.P. VI, RD Properties, L.P. VIA and RD Properties, L.P. VIB (9)
10.8	Agreement of Contribution among Acadia Realty Limited Partnership, Acadia Realty Trust and Klaff Realty, LP and Klaff Realty, Limited (18)
10.9	Employment agreement between the Company and Kenneth F. Bernstein dated October 1998 (6) (21)
10.11	Amendment to employment agreement between the Company and Kenneth F. Bernstein dated January 19, 2007 (26) (21)
10.12	First Amendment to Employment Agreement between the Company and Kenneth Bernstein dated as of January 1, 2001 (12) (21)
10.13	Description of Long Term Investment Alignment Program (32)
10.14	Letter of employment offer between the Company and Michael Nelsen, Sr. Vice President and Chief Financial Officer dated February 19, 2003 (15) (21)
10.15	Form of Amended and Restated Severance Agreement, dated June 12, 2008, that was entered into with each of Joel Braun, Executive Vice President and Chief Investment Officer; Michael Nelsen, Senior Vice President and Chief Financial Officer; Robert Masters, Senior Vice President, General Counsel, Chief Compliance Officer and Secretary; and Joseph Hogan, Senior Vice President and Director of Construction. (Incorporated by reference to the Exhibit 10.1 to the Company s Form 8-K filed with the SEC on June 12, 2008) (21)
10.16	Note Modification Agreement, Note, Mortgage Modification Agreement, Mortgage, Assignment of Leases and Rents and Security Agreement between Acadia-P/A Sherman Avenue LLC and Bank of America N. A. dated January 15, 2009 (32)

Exhibit No.	Description
10.17	Mortgage, Assignment of Leases and Rents and Security Agreement from Acadia Cortlandt LLC to Bank of America, N.A. dated July 29, 2009 [Initial Advance], Note made by Acadia Cortlandt LLC in favor of Bank of America, N.A. dated July 29, 2009 [Initial Advance], Mortgage, Assignment of Leases and Rents and Security Agreement from Acadia Cortlandt LLC to Bank of America, N.A. dated July 29, 2009 [Future Advance] and Note made by Acadia Cortlandt LLC in favor of Bank of America, N.A. dated July 29, 2009 [Future Advance] (33)
10.18	Consolidated, Amended and Restated Term Loan Agreement among Acadia-PA East Fordham Acquisitions, LLC, and Fordham Place Office LLC as borrower and The lenders Party Hereto as lenders and Eurohypo AG, New York Branch as Administrative Agent; Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing made by Acadia-PA East Fordham Acquisitions, LLC, and Fordham Place Office LLC in favor of Eurohypo AG, New York Branch as Administrative Agent; Replacement Note between Acadia-PA East Fordham Acquisitions, LLC, and Fordham Place Office LLC and Amalgamated Bank; Replacement Note between Acadia-PA East Fordham Acquisitions, LLC, and Fordham Place Office LLC and Deutsche Genossenschafts Hypothekenbank AG; Replacement Note between Acadia-PA East Fordham Acquisitions, LLC, and Fordham Place Office LLC and Eurohypo AG, New York Branch; and Replacement Note between Acadia-PA East Fordham Acquisitions, LLC, and Fordham Place Office LLC and TD Bank. All dated November 4, 2009. (35)
10.19	Fifth Amendment to Employment Agreement between the Company and Kenneth F. Bernstein dated August 5, 2008 (34)
10.20	Secured Promissory Note between RD Absecon Associates, L.P. and Fleet Bank, N.A. dated February 8, 2000 (7)
10.21	Promissory Note between 239 Greenwich Associates, L.P. and Greenwich Capital Financial Products, Inc. dated May 30, 2003 (18)
10.22	Open-End Mortgage, Assignment of Leases and Rents, and Security Agreement between 239 Greenwich Associates, L.P. and Greenwich Capital Financial Products, Inc. dated May 30, 2003 (18)
10.23	Promissory Note between Merrillville Realty, L.P. and Sun America Life Insurance Company dated July 7, 1999 (7)
10.24	Secured Promissory Note between Acadia Town Line, LLC and Fleet Bank, N.A. dated March 21, 1999 (7)
10.25	Promissory Note between RD Village Associates Limited Partnership and Sun America Life Insurance Company Dated September 21, 1999 (7)
10.26	First Amendment to Severance Agreements between the Company and Joel Braun Executive Vice President and Chief Investment Officer, Michael Nelsen, Senior Vice President and Chief Financial Officer, Robert Masters, Senior Vice President, General Counsel, Chief Compliance Officer and Secretary and Joseph Hogan, Senior Vice President and Director of Construction dated January 19, 2007 (21) (26)
10.27	Mortgage Agreement, $25.0 million Mortgage Note, $23.0 million Mortgage Note, Building Loan Agreement and General Assignment of Rents between Manufacturers and Traders Trust Company and Capital One, N.A. (the Lending Group) and Canarsie Plaza, LLC, all dated January 12, 2010 (34)
10.28	Third Amended and Restated Credit Agreement and Note among Acadia Strategic Opportunity Fund II, LLC and Bank of America, N.A., dated March 3, 2010 (34)
10.29	Loan Agreement between New York City Capital Resource Corporation (the Issuer) and Albee Retail Development LLC (the Company), Copy of the Promissory Note from the Company to the Issuer and The Bank of New York Mellon, as trustee (the Trustee), Indenture of Trust (the Indenture) between the Issuer and the Trustee, Mortgage and Security Agreement and Assignment of Leases and Rents (Acquisition Loan) from the Company to the Trustee, Mortgage and Security Agreement and Assignment of Leases and Rents (Building Loan) from the Company to the Trustee, Mortgage and Security Agreement and Assignment of Leases and Rents (Indirect Loan) from the Company to the Trustee, Building Loan Agreement among the Issuer, the Trustee and the Company, Pledge and Security Agreement from the Company to the Trustee, Bond Guarantee Agreement from the Company and Acadia Strategic Opportunity Fund II LLC (the Parent) to the Trustee, Project Completion Guarantee Agreement from the Company and the Parent to the Trustee, all dated as of July 1, 2010 (35)
10.30	Amended and Restated Note Agreement made by Albee Development LLC in favor of Bank of America, N.A., dated August 19, 2010 (35)

Exhibit No.	Description
10.31	Third Loan Extension and Modification Agreement by and among Acadia-P/A 161ST Street, LLC (Borrower), Acadia-P/A Holdings Company, LLC (Guarantor) and Bank of America, N.A., dated July 9, 2010 (35)
10.32	Fourth Amendment to Project Loan Agreement and Amendment of Certain Other Loan Documents by and between P/A-Acadia Pelham Manor, LLC and U.S. Bank National Association, Not Individually but Solely as Trustee for the Maiden Lane Commercial Mortgage-Backed Securities Trust 2008-1 dated August 26, 2010 (35)
10.33	Term Loan Agreement between Acadia Realty L.P. and The Dime Savings Bank of New York, dated March 30, 2000 (10)
10.34	Mortgage Agreement between Acadia Realty L.P. and The Dime Savings Bank of New York, dated March 30, 2000 (10)
10.35	Second Mortgage Modification Agreement by and between Acadia-P/A Liberty LLC and PNC Bank, National Association dated September 17, 2010 (35)
10.36	Amended and Restated Loan Agreement among Acadia Cortlandt LLC and Bank of America, N.A., Note between Acadia Cortlandt LLC and Bank of America, N.A., Note Consolidation and Modification Agreement between Acadia Cortlandt LLC and Bank of America, N.A., Note between Acadia Cortlandt LLC and Bank of America, N.A., Mortgage Consolidation and Modification Agreement between Acadia Cortlandt LLC and Bank of America, N.A., Mortgage Security Agreement between Acadia Cortlandt LLC and Bank of America, N.A. and Amended and Restated Guaranty Agreement between Acadia Cortlandt LLC and Bank of America, N.A., all dated October 26, 2010 (36)
10.37	Agreement of Modification of Note Consolidation and Modification Agreement between Acadia Tarrytown LLC and Anglo Irish Bank Corporation Limited dated November 5, 2010 but deemed effective as of October 30, 2010 (36)
10.38	Second Amendment to Building Loan Agreement and the Second Amendment to Project Loan Agreement and Amendment of Certain Other Loan Documents by and between Acadia Atlantic Avenue, LLC and U.S. Bank National Association, Not Individually But Solely as Trustee for the Maiden Lane Commercial Mortgage-Backed Securities Trust 2008-1, both dated October 20, 2010 (36)
10.39	Fourth Amended and Restated Credit Agreement among Acadia Strategic Opportunity Fund II, LLC and Bank of America, N.A. dated December 22, 2010 (36)
10.40	Loan Agreement among P/A-Acadia Pelham Manor, LLC and Bank of America, N.A., Note between P/A-Acadia Pelham Manor, LLC and Bank of America, N.A., Note between P/A-Acadia Pelham Manor, LLC and Bank of America, N.A., Note Consolidation and Modification Agreement between P/A-Acadia Pelham Manor, LLC and Bank of America, N.A., Fee and Leasehold Mortgage, Assignment of Leases and Rents and Security Agreement between P/A-Acadia Pelham Manor, LLC and Bank of America, N.A., Fee and Leasehold Mortgage Consolidation and Modification Agreement between P/A-Acadia Pelham Manor, LLC and Bank of America, N.A. and Guaranty Agreement between P/A-Acadia Pelham Manor, LLC and Bank of America, N.A., all dated December 1, 2010 (36)
10.44	Prospectus Supplement Regarding Options Issued under the Acadia Realty Trust 1999 Share Incentive Plan and 2003 Share Incentive Plan (19) (21)
10.45	Acadia Realty Trust 1999 Share Incentive Plan and 2003 Share Incentive Plan Deferral and Distribution Election Form (19) (21)
10.46	Amended, Restated And Consolidated Promissory Note between Acadia New Loudon, LLC and Greenwich Capital Financial Products, Inc. dated August 13, 2004 (19)
10.47	Amended, Restated And Consolidated Mortgage, Assignment Of Leases And Rents And Security Agreement between Acadia New Loudon, LLC and Greenwich Capital Financial Products, Inc. dated August 13, 2004 (19)
10.51	Mortgage, Assignment of Leases and Rents and Security Agreement between Acadia Crescent Plaza, LLC and Greenwich Capital Financial Products, Inc. dated August 31, 2005 (22)

Exhibit No.	Description
10.52	Mortgage, Assignment of Leases and Rents and Security Agreement between Pacesetter/Ramapo Associates and Greenwich Capital Financial Products, Inc. dated October 17, 2005 (22)
10.53	Loan Agreement between RD Elmwood Associates, L.P. and Bear Stearns Commercial Finance Mortgage, Inc. dated December 9, 2005 (35)
10.54	Mortgage and Security Agreement between RD Elmwood Associates, L.P. and Bear Stearns Commercial Finance Mortgage, Inc. dated December 9, 2005 (22)
10.55	Agreement and Plan Of Merger Dated as of December 22, 2005 by and among Acadia Realty Acquisition I, LLC, Ara Btc LLC, ARA MS LLC, ARA BS LLC, ARA BC LLC and ARA BH LLC, Acadia Investors, Inc., AII BTC LLC, AII MS LLC, AII BS LLC, AII BC LLC And AII BH LLC, Samuel Ginsburg 2000 Trust Agreement #1, Martin Ginsburg 2000 Trust Agreement #1, Martin Ginsburg, Samuel Ginsburg and Adam Ginsburg, and GDC SMG, LLC, GDC Beechwood, LLC, Aspen Cove Apartments, LLC and SMG Celebration, LLC (23)
10.56	Amended and Restated Loan Agreement between Acadia Realty Limited Partnership, as lender, and Levitz SL Woodbridge, L.L.C., Levitz SL St. Paul, L.L.C., Levitz SL La Puente, L.L.C., Levitz SL Oxnard, L.L.C., Levitz SL Willowbrook, L.L.C., Levitz SL Northridge, L.L.C., Levitz SL San Leandro, L.L.C., Levitz SL Sacramento, L.L.C., HL Brea, L.L.C., HL Deptford, L.L.C., HL Hayward, L.L.C., HL San Jose, L.L.C., HL Scottsdale, L.L.C., HL Torrance, L.L.C., HL Irvine 1, L.L.C., HL West Covina, L.L.C., HL Glendale, L.L.C. and HL Northridge, L.L.C., each a Delaware limited liability company, Levitz SL Langhorne, L.P. and HL Fairless Hills, L.P., each a Delaware limited partnership (each, together with its permitted successors and assigns, a *Borrower* , and collectively, together with their respective permitted successors and assigns, *Borrowers*), dated June 1, 2006 (24)
10.57	Consent and Assumption Agreement between Thor Chestnut Hill, LP, Thor Chestnut Hill II, LP, Acadia Chestnut, LLC, Acadia Realty Limited Partnership and Wells Fargo Bank, N.A. dated June 9, 2006, original Mortgage and Security Agreement between Thor Chestnut Hill, LP and Thor Chestnut Hill II, LP and Column Financial, Inc. dated June 5, 2003 and original Assignment of Leases and Rents from Thor Chestnut Hill, LP and Thor Chestnut Hill II, LP to Column Financial, Inc. dated June 2003. (24)
10.58	Loan Agreement and Promissory Note between RD Woonsocket Associates, L.P. and Merrill Lynch Mortgage Lending, Inc. dated September 8, 2006 (25)
10.59	Amended and Restated Revolving Loan Agreement dated as of December 19, 2006 by and among RD Abington Associates LP, Acadia Town Line, LLC, RD Methuen Associates LP, RD Absecon Associates, LP, RD Bloomfield Associates, LP, RD Hobson Associates, LP, and RD Village Associates LP, and Bank of America, N.A. and the First Amendment to Amended and Restated Revolving Loan Agreement dated February, 2007. (26)
10.60	Loan Agreement between Bank of America, N.A. and RD Branch Associates, LP dated December 19, 2006. (26)
10.61	Loan Agreement between 239 Greenwich Associates Limited Partnership and Wachovia Bank, National Association dated January 25, 2007. (35)
10.62	Revolving Credit Agreement between Acadia Realty Limited Partnership and Washington Mutual Bank dated March 29, 2007. (28)
10.63	Loan Agreement between Acadia Merrillville Realty, L.P. and Bear Stearns Commercial Mortgage, Inc dated July 2, 2007. (35)
10.64	Promissory Note between Acadia Merrillville Realty, L.P. and Bear Stearns Commercial Mortgage, Inc dated July 2, 2007. (29)
10.65	Loan Agreement Note between APA 216th Street and Bank of America, N.A. dated September 11, 2007. (29)
10.66	Promissory Note between APA 216th Street and Bank of America, N.A. dated September 11, 2007. (29)
10.67	Acquisition and Project Loan agreement between Acadia PA East Fordham Acquisitions, LLC and Eurohypo AG, New York Branch dated October 5, 2007 (35)

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Exhibit No.	Description
10.68	Building Loan Agreement between Acadia PA East Fordham Acquisitions, LLC and Eurohypo AG, New York Branch dated October 5, 2007 (30)
10.69	Revolving credit agreement between Acadia Strategic Opportunity Fund III, LLC. and Bank of America, N.A. dated October 10, 2007 (35)
10.70	Mortgage Consolidation and Modification Agreement between Acadia Tarrytown LLC and Anglo Irish Bank Corporation, PLC dated October 30, 2007 (35)
10.71	Project Loan Agreement between P/A Acadia Pelham Manor, LLC and Bear Stearns Commercial Mortgage, Inc. dated December 10, 2007 (35)
10.72	Building Loan Agreement P/A Acadia Pelham Manor, LLC and Bear Stearns Commercial Mortgage, Inc. dated December 10, 2007 (35)
10.73	Project Loan Agreement between Acadia Atlantic Avenue, LLC and Bear Stearns Commercial Mortgage, Inc. dated December 26, 2007 (35)
10.74	Building Loan Agreement between Acadia Atlantic Avenue, LLC and Bear Stearns Commercial Mortgage, Inc. dated December 26, 2007 (35)
10.75	Certain information regarding the compensation arrangements with certain officers of registrant (Incorporated by reference to Item 5.02 of the registrant s Form 8-K filed with the SEC on February 4, 2008)
10.76	Real Estate Purchase and Sale Agreement between Suffern Self Storage, L.L.C., Jersey City Self Storage, L.L.C., Linden Self Storage, L.L.C., Webster Self Storage, L.L.C., Bronx Self Storage, L.L.C., American Storage Properties North LLC, and The Storage Company LLC (collectively, as Seller) and Acadia Storage Post LLC, a Delaware limited liability company, as Buyer, for ten Properties and Storage Facilities located thereon (31)
10.77	Real Estate Purchase and Sale Agreement between American Storage Properties North LLC, as Seller and Acadia Storage Post Metropolitan Avenue LLC, as Buyer for 4805 Metropolitan Avenue, Unit 2, Maspeth, Queens, New York (31)
10.78	First Amendment to Real Estate Purchase and Sale Agreement between Suffern Self Storage, L.L.C., Jersey City Self Storage, L.L.C., Linden Self Storage, L.L.C., Webster Self Storage, L.L.C., Bronx Self Storage, L.L.C., American Storage Properties North LLC, and The Storage Company LLC (collectively, Seller) and Acadia Storage Post LLC (Buyer) (31)
10.79	Amended and Restated Agreement of Limited Partnership of the Operating Partnership (11)
10.80	First and Second Amendments to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership (11)
10.81	Third Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (18)
10.82	Fourth Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (18)
21	List of Subsidiaries of Acadia Realty Trust (36)
23.1	Consent of Registered Public Accounting Firm to incorporation by reference its reports into Forms S-3 and Forms S-8 (36)
31.1	Certification of Chief Executive Officer pursuant to rule 13a 14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (36)
31.2	Certification of Chief Financial Officer pursuant to rule 13a 14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (36)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (36)

32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (36)

Exhibit No.	Description
99.1	Certificate of Designation of Series A Preferred Operating Partnership Units of Limited Partnership Interest of Acadia Realty Limited Partnership (2)
99.2	Certificate of Designation of Series B Preferred Operating Partnership Units of Limited Partnership Interest of Acadia Realty Limited Partnership (18)

Notes:

(1) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form 10-K filed for the fiscal Year ended December 31, 1994

(2) Incorporated by reference to the copy thereof filed as an Exhibit to Company s Quarterly Report on Form 10-Q filed for the quarter ended June 30, 1997

(3) Incorporated by reference to the copy thereof filed as an Exhibit to Company s Quarterly Report on Form 10-Q filed for the quarter ended September 30, 1998

(4) Incorporated by reference to the copy thereof filed as an Exhibit to Company s Quarterly Report on Form 10-Q filed for the quarter ended September 30, 1998

(5) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Registration Statement on Form S-11 (File No.33-60008)

(6) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form10-K filed for the fiscal year ended December 31, 1998

(7) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form10-K filed for the fiscal year ended December 31, 1999

(8) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Registration Statement on Form S-8 filed September 28, 1999

(9) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Form 8-K filed on April 20, 1998

(10) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Form 10-K filed for the fiscal year ended December 31, 2000

(11) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Registration Statement on Form S-3 filed on March 3, 2000

(12) Incorporated by reference to the copy thereof filed as an Exhibit to Company s Quarterly Report on Form 10-Q filed for the quarter ended September 30, 2001

(13) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2001

(14) Incorporated by reference to the copy thereof filed as an Exhibit to Yale University s Schedule 13D filed on September 25, 2002

(15) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2002

(16) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Definitive Proxy Statement on Schedule 14A filed April 29, 2003.

(17) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Current Report on Form 8-K filed on July 2, 2003

(18)

Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2003

(19) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004.

(20) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2004.

(21) Management contract or compensatory plan or arrangement.

(22) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2005.

(23) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Current Report on Form 8-K filed on January 4, 2006

(24) Incorporated by reference to the copy thereof filed as an Exhibit to Company s Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2006

(25) Incorporated by reference to the copy thereof filed as an Exhibit to Company s Quarterly Report on Form 10-Q filed for the quarter ended September 30, 2006

(26) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Current Report on Form 8-K filed on January 19, 2007

(27) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Annual Report on Form 10-K filed for the fiscal year ended December 31, 2006.

(28) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2007.

(29) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Quarterly Report on Form 10-Q filed for the quarter ended September 30, 2007.

(30) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Quarterly Report on Form 10-K filed for the year ended December 31, 2007.

(31) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2008.

(32) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2009.

(33) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Quarterly Report on Form 10-Q filed for the quarter ended September 30, 2009.

(34) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2010.

(35) Incorporated by reference to the copy thereof filed as an Exhibit to the Company s Quarterly Report on Form 10-Q filed for the quarter ended September 30, 2010.

(36) Filed herewith.

ACADIA REALTY TRUST AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Shareholders and Trustees of
Acadia Realty Trust

We have audited the accompanying consolidated balance sheets of Acadia Realty Trust and subsidiaries (the Company) as of December 31, 2010 and 2009 and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2010. In connection with our audits of the financial statements we have also audited the accompanying financial statement schedule listed on page F-1. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Acadia Realty Trust and subsidiaries at December 31, 2010, and 2009 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with generally accepted accounting principles in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Acadia Realty Trust and subsidiaries internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York
February 28, 2011

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
	(dollars in thousands)	
ASSETS		
Operating real estate		
Land	$ 222,786	$ 221,740
Buildings and improvements	915,221	838,828
Construction in progress	4,400	2,575
	1,142,407	1,063,143
Less: accumulated depreciation	219,920	191,307
Net operating real estate	922,487	871,836
Real estate under development	243,892	137,340
Notes receivable and preferred equity investment, net	89,202	125,221
Investments in and advances to unconsolidated affiliates	31,036	51,712
Cash and cash equivalents	120,592	93,808
Cash in escrow	28,610	8,582
Rents receivable, net	18,044	16,713
Deferred charges, net of amortization	25,730	28,311
Acquired lease intangibles, net of amortization	18,622	22,382
Prepaid expenses and other assets	22,463	22,003
Assets of discontinued operations	4,128	4,556
Total assets	$ 1,524,806	$ 1,382,464
LIABILITIES AND SHAREHOLDERS EQUITY		
Mortgages payable	$ 806,212	$ 732,287
Convertible notes payable, net of unamortized discount of $1,063 and $2,105, respectively	48,712	47,910
Distributions in excess of income from, and investments in, unconsolidated affiliates	20,884	20,589
Accounts payable and accrued expenses	27,691	17,548
Dividends and distributions payable	7,427	7,377
Acquired lease intangibles, net of amortization	5,737	6,753
Other liabilities	20,621	17,523
Total liabilities	937,284	849,987
SHAREHOLDERS EQUITY		
Common shares, $.001 par value, authorized 100,000,000 shares, issued and outstanding 40,254,525 and 39,787,018 shares, respectively	40	40
Additional paid-in capital	303,823	299,014
Accumulated other comprehensive loss	(2,857)	(2,994)
Retained earnings	17,206	16,125
Total Shareholders equity	318,212	312,185
Noncontrolling interests	269,310	220,292
Total equity	587,522	532,477
Total liabilities and equity	$ 1,524,806	$ 1,382,464

The accompanying notes are an integral part of these consolidated financial statements

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31, 2010	2009	2008
	(dollars in thousands except per share amounts)		
Revenues			
Rental income	$ 106,913	$ 95,716	$ 77,120
Mortgage interest income	19,161	19,698	11,163
Expense reimbursements	22,030	20,982	16,789
Lease termination income	290	2,751	23,961
Management fee income	1,424	1,961	3,434
Other	2,140	4,595	1,099
Total revenues	151,958	145,703	133,566
Operating Expenses			
Property operating	30,914	29,651	23,917
Real estate taxes	18,245	16,812	12,123
General and administrative	20,220	22,013	24,545
Depreciation and amortization	40,115	36,634	32,749
Abandonment of project costs		2,487	630
Reserve for notes receivable		1,734	4,392
Total operating expenses	109,494	109,331	98,356
Operating income	42,464	36,372	35,210
Equity in earnings (losses) of unconsolidated affiliates	10,971	(1,529)	19,906
Impairment of investment in unconsolidated affiliate		(3,768)	
Other interest income	408	642	3,370
Gain from bargain purchase	33,805		
Gain on debt extinguishment		7,057	1,523
Interest and other finance expense	(34,471)	(32,154)	(28,893)
Gain on sale of land			763
Income from continuing operations before income taxes	53,177	6,620	31,879
Income tax expense	(2,890)	(1,541)	(3,362)
Income from continuing operations	50,287	5,079	28,517
Discontinued operations			
Operating income from discontinued operations	380	484	1,738
Gain on sale of property		7,143	7,182
Income from discontinued operations	380	7,627	8,920
Net income	50,667	12,706	37,437
(Income) loss attributable to noncontrolling interests in subsidiaries:			
Continuing operations	(20,307)	23,472	(11,438)
Discontinued operations	(303)	(5,045)	(931)
Net (income) loss attributable to noncontrolling interests in subsidiaries	(20,610)	18,427	(12,369)

Net income attributable to Common Shareholders	$ 30,057	$ 31,133	$ 25,068
Basic earnings per share			
Income from continuing operations	$ 0.75	$ 0.75	$ 0.51
Income from discontinued operations		0.07	0.23
Basic earnings per share	$ 0.75	$ 0.82	$ 0.74
Diluted earnings per share			
Income from continuing operations	$ 0.74	$ 0.75	$ 0.50
Income from discontinued operations		0.07	0.23
Diluted earnings per share	$ 0.74	$ 0.82	$ 0.73

The accompanying notes are an integral part of these consolidated financial statements

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(amounts in thousands, except per share amounts)	Common Shares Shares	Common Shares Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Common Shareholders Equity	Noncontrolling Interests	Total Share-hol Equity
Balance at January 1, 2008	32,184	$ 32	$ 236,967	$ (953)	$ 13,671	$ 249,717	$ 171,111	$ 420,82
Employee Restricted Share awards	137		2,917			2,917	1,863	4,78
Dividends declared ($1.39 per Common Share)			(20,385)		(25,068)	(45,453)	(1,192)	(46,64
Employee exercise of 110,245 options to purchase Common Shares	110		841			841		84
Common Shares issued under Employee Share Purchase Plan	7		180			180		18
Issuance of Common Shares to Trustees	2		81			81		8
Employee Restricted Shares cancelled	(83)		(1,997)			(1,997)		(1,99
Conversion options on Convertible Notes purchased (Note 9)			(77)			(77)		(7
Noncontrolling interest distributions							(15,347)	(15,34
Noncontrolling interest contributions							46,014	46,01
	32,357	32	218,527	(953)	(11,397)	206,209	202,449	408,65
Comprehensive income:								
Net income					25,068	25,068	12,369	37,43
Unrealized loss on valuation of swap agreements				(4,179)		(4,179)	(421)	(4,60
Reclassification of realized interest on swap agreements				624		624	109	73
Total comprehensive income				(3,555)	25,068	21,513	12,057	33,57
Balance at December 31, 2008	32,357	$ 32	$ 218,527	$ (4,508)	$ 13,671	$ 227,722	$ 214,506	$ 442,22
Conversion of 15,666 OP Units to Common Shares by limited partners of the Operating Partnership	16		90			90	(90)	
Issuance of Common Shares, net of issuance costs	5,750	6	65,216			65,222		65,22
Issuance of Common Shares through special dividend	1,287	2	16,190			16,192		16,19
Employee Restricted Share awards	253		2,957			2,957	890	3,84
Dividends declared ($0.75 per Common Share)					(28,679)	(28,679)	(795)	(29,47
Employee exercise of 258,900 options to purchase Common Shares	259		1,556			1,556		1,55
Common Shares issued under Employee Share Purchase Plan	9		106			106		10

Issuance of Common Shares to Trustees	25		635			635		63
Employee Restricted Shares cancelled	(359)		(5,423)			(5,423)		(5,42
Deferred shares converted to Common Shares	190							
Conversion options on Convertible Notes purchased (Note 9)			(840)			(840)		(84
Noncontrolling interest distributions							(1,624)	(1,62
Noncontrolling interest contributions							25,653	25,65
	39,787	40	299,014	(4,508)	(15,008)	279,538	238,540	518,07
Comprehensive income (loss):								
Net income (loss)					31,133	31,133	(18,427)	12,70
Unrealized loss on valuation of swap agreements				(912)		(912)	(140)	(1,05
Reclassification of realized interest on swap agreements				2,426		2,426	319	2,74
Total comprehensive income (loss)				1,514	31,133	32,647	(18,248)	14,39
Balance at December 31, 2009	39,787	$ 40	$ 299,014	$ (2,994)	$ 16,125	$ 312,185	$ 220,292	$ 532,47

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(amounts in thousands, except per share amounts)	Common Shares Shares	Common Shares Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Common Shareholders Equity	Noncontrolling Interests	Total Share-holders Equity
Conversion of 364,615 OP Units to Common Shares by limited partners of the Operating Partnership	365		3,240			3,240	(3,240)	
Employee Restricted Share awards	133		2,060			2,060	1,778	3,83
Dividends declared ($0.72 per Common Share)					(28,976)	(28,976)	(723)	(29,69
Exercise of Trustees options	7		109			109		10
Common Shares issued under Employee Share Purchase Plan	6		100			100		10
Issuance of Common Shares to Trustees	13		266			266		26
Employee Restricted Shares cancelled	(57)		(966)			(966)		(96
Noncontrolling interest distributions							(2,892)	(2,89
Noncontrolling interest contributions							33,556	33,55
	40,254	40	303,823	(2,994)	(12,851)	288,018	248,771	536,78
Comprehensive income:								
Net income					30,057	30,057	20,610	50,66
Unrealized loss on valuation of swap agreements				(2,329)		(2,329)	(354)	(2,68
Reclassification of realized interest on swap agreements				2,466		2,466	283	2,74
Total comprehensive income				137	30,057	30,194	20,539	50,73
Balance at December 31, 2010	40,254	$ 40	$ 303,823	$ (2,857)	$ 17,206	$ 318,212	$ 269,310	$ 587,52

The accompanying notes are an integral part of these consolidated financial statements.

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2010	2009	2008
	(dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 50,667	$ 12,706	$ 37,437
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	40,553	37,242	34,908
Gain from bargain purchase	(33,805)		
Gain on sale of property		(7,143)	(7,945)
Gain on debt extinguishment		(7,057)	(1,523)
Amortization of discount on convertible debt	1,042	1,280	2,101
Non-cash accretion of notes receivable	(6,164)	(5,352)	(2,367)
Share compensation expense	4,104	3,969	3,434
Equity in (earnings) losses of unconsolidated affiliates	(10,971)	1,529	(19,906)
Impairment of investment in unconsolidated affiliate		3,768	
Distributions of operating income from unconsolidated affiliates	12,124	880	14,420
Reserve for notes receivable		1,734	4,392
Provision for bad debt	3,331	4,132	3,593
Other, net	906	7,457	6,704
Changes in assets and liabilities:			
Cash in escrows	(20,028)	(1,788)	(157)
Rents receivable	(4,662)	(8,370)	(2,305)
Prepaid expenses and other assets, net	1,889	8,156	(15,865)
Accounts payable and accrued expenses	1,874	(5,902)	8,368
Other liabilities	3,517	221	1,228
Net cash provided by operating activities	44,377	47,462	66,517
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments in real estate	(80,520)	(127,322)	(245,033)
Deferred acquisition and leasing costs	(3,904)	(11,368)	(6,068)
Investments in and advances to unconsolidated affiliates	(19,116)	(5,603)	(7,918)
Return of capital from unconsolidated affiliates	785	4,705	4,052
Repayments of notes receivable	42,010	13,614	19,922
Increase in notes receivable		(9,362)	(90,847)
Proceeds from sale of property		11,956	23,627
Net cash used in investing activities	(60,745)	(123,380)	(302,265)

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2010	2009	2008
	(dollars in thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on mortgage notes	(127,823)	(182,610)	(68,412)
Proceeds received on mortgage notes	175,793	260,065	281,192
Redemption of convertible notes payable	(240)	(46,736)	(6,042)
Increase in deferred financing and other costs	(6,830)	(1,755)	(1,763)
Capital contributions from noncontrolling interests	33,556	25,653	46,014
Distributions to noncontrolling interests	(1,638)	(2,879)	(16,183)
Dividends paid to Common Shareholders	(28,909)	(30,163)	(34,710)
Proceeds from issuance of Common Shares, net of issuance costs		65,222	
Repurchase and cancellation of Common Shares	(966)	(5,424)	(2,102)
Common Shares issued under Employee Share Purchase Plan	100	106	261
Exercise of options to purchase Common Shares	109	1,556	841
Net cash provided by financing activities	43,152	83,035	199,096
Increase (decrease) in cash and cash equivalents	26,784	7,117	(36,652)
Cash and cash equivalents, beginning of period	93,808	86,691	123,343
Cash and cash equivalents, end of period	$ 120,592	$ 93,808	$ 86,691
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, including capitalized interest of $2,903, $3,516, and $6,779, respectively	$ 34,823	$ 33,699	$ 33,778
Cash paid for income taxes	$ 1,263	$ 777	$ 6,633
Supplemental disclosure of non-cash investing and financing activities:			
Acquisition of real estate through assumption of debt	$	$	$ 39,967
Dividends paid through the issuance of Common Shares	$	$ 16,192	$
Acquisition of interest in unconsolidated affiliates:			
Real Estate, net	$ (108,000)	$	$
Assumption of mortgage debt	25,990		
Gain from bargain purchase	33,805		
Other assets and liabilities	7,532		
Investment in unconsolidated affiliates	37,824		
Cash included in investment in real estate	$ (2,849)	$	$

The accompanying notes are an integral part of these consolidated financial statements.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies

Acadia Realty Trust (the Trust) and subsidiaries (collectively, the Company) is a fully integrated, self-managed and self-administered equity real estate investment trust (REIT) focused primarily on the ownership, acquisition, redevelopment and management of retail properties, including neighborhood and community shopping centers and mixed-use properties with retail components.

As of December 31, 2010, the Company operated 79 properties, which it owns or has an ownership interest in, principally located in the Northeast, Mid-Atlantic and Midwest regions of the United States.

All of the Company s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the Operating Partnership) and entities in which the Operating Partnership owns a controlling interest. As of December 31, 2010, the Trust controlled 99% of the Operating Partnership as the sole general partner. As the general partner, the Trust is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners represent entities or individuals who contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (Common or Preferred OP Units). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Trust (Common Shares). This structure is referred to as an umbrella partnership REIT or UPREIT.

The Company formed Acadia Strategic Opportunity Fund I, LP (Fund I), and formed Acadia Mervyn Investors I, LLC (Mervyns I), with four institutional investors. The Operating Partnership committed a total of $20.0 million to Fund I and Mervyns I, and the four institutional shareholders committed a total of $70.0 million for the purpose of acquiring real estate investments. As of December 31, 2010, Fund I was fully invested, with the Operating Partnership having contributed $16.5 million to Fund I and $2.7 million to Mervyns I.

The Operating Partnership is the general partner of Fund I and sole managing member of Mervyns I, with a 22.2% interest in both Fund I and Mervyns I and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds (Promote). Cash flow is distributed pro-rata to the partners and members (including the Operating Partnership) until they receive a 9% cumulative return (Preferred Return), and the return of all capital contributions. Thereafter, remaining cash flow (which is net of distributions and fees to the Operating Partnership for management, asset management, leasing, construction and legal services) is distributed 20% to the Operating Partnership as a Promote and 80% to the partners (including the Operating Partnership). As all contributed capital and accumulated preferred return has been distributed to investors, the Operating Partnership is currently entitled to a Promote on all earnings and distributions.

The Company formed Acadia Strategic Opportunity Fund II, LLC (Fund II), and formed Acadia Mervyn Investors II, LLC (Mervyns II), with the investors from Fund I as well as two additional institutional investors with a total of $300.0 million of committed discretionary capital. The Operating Partnership s share of committed capital is $60.0 million. The Operating Partnership is the managing member with a 20% interest in both Fund II and Mervyns II. The terms and structure of Fund II and Mervyns II are substantially the same as Fund I and Mervyns I, including the Promote structure, with the exception that the Preferred Return is 8%. As of December 31, 2010, the Operating Partnership had contributed $45.4 million to Fund II and $7.6 million to Mervyns II.

The Company formed Acadia Strategic Opportunity Fund III LLC (Fund III) with fourteen institutional investors, including a majority of the investors from Fund I and Fund II with a total of $502.5 million of committed discretionary capital. The Operating Partnership s share of the invested capital is $100.0 million and it is the managing member with a 19.9% interest in Fund III. The terms and structure of Fund III are substantially the same as the previous Funds I and II, including the Promote structure, with the exception that the Preferred Return is 6%. As of December 31, 2010, the Operating Partnership had contributed $19.2 million to Fund III.

Principles of Consolidation

The consolidated financial statements include the consolidated accounts of the Company and its controlling investments in partnerships and limited liability companies in which the Company has control in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810 Consolidation (ASC Topic 810). The ownership interests of other investors in these entities are recorded as noncontrolling interests. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in entities for which the Company has the ability to exercise significant influence over, but does not have financial or operating control, are accounted for using the equity method of accounting. Accordingly, the Company s share of the earnings (or losses) of these entities are included in consolidated net income.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued

Principles of Consolidation, continued

Variable interest entities are accounted for within the scope of ASC Topic 810 and are required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is the enterprise that has the power to direct the activities that most significantly impact the variable interest entity s economic performance and the obligation to absorb losses or the right to receive benefits of the variable interest entity that could be significant to the variable interest entity. Management has evaluated the applicability of ASC Topic 810 to its investments in certain joint ventures and determined that these joint ventures are not variable interest entities or that the Company is not the primary beneficiary and, therefore, consolidation of these ventures is not required. These investments are accounted for using the equity method.

Investments in and Advances to Unconsolidated Joint Ventures

The Company accounts for its investments in unconsolidated joint ventures using the equity method as it does not exercise control over significant asset decisions such as buying, selling or financing nor is it the primary beneficiary under ASC Topic 810, as discussed above. The Company does have significant influence over the investments which requires equity method accounting. Under the equity method, the Company increases its investment for its proportionate share of net income and contributions to the joint venture and decreases its investment balance by recording its proportionate share of net loss and distributions. The Company recognizes income for distributions in excess of its investment where there is no recourse to the Company. For investments in which there is recourse to the Company, distributions in excess of the investment are recorded as a liability. Although the Company accounts for its investment in Albertson s (Note 4) under the equity method of accounting, the Company adopted the policy of not recording its equity in earnings or losses of this unconsolidated affiliate until it receives the audited financial statements of Albertson s to support the equity earnings or losses in accordance with ASC Topic 323 Investments Equity Method and Joint Ventures .

The Company periodically reviews its investment in unconsolidated joint ventures for other than temporary losses in investment value. Any decline that is not expected to be recovered is considered other than temporary and an impairment charge is recorded as a reduction in the carrying value of the investment. During the years ended December 31, 2010, 2009 and 2008, impairment charges related to the Company s investment in unconsolidated joint ventures were $0.0 million, $3.8 million and $0.0 million, respectively.

Use of Estimates

Accounting principles generally accepted in the United States of America (GAAP) require the Company s management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant assumptions and estimates relate to the valuation of real estate, depreciable lives, revenue recognition and the collectability of trade accounts receivable. Application of these assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ from these estimates.

Real Estate

Real estate assets are stated at cost less accumulated depreciation. Expenditures for acquisition, development, construction and improvement of properties, as well as significant renovations are capitalized. Interest costs are capitalized until construction is substantially complete and the real estate is ready for its intended use. Construction in progress includes costs for significant property expansion and redevelopment. Depreciation is computed on the straight-line basis over estimated useful lives of 30 to 40 years for buildings, the shorter of the useful life or lease term for tenant improvements and five years for furniture, fixtures and equipment. Expenditures for maintenance and repairs are charged to operations as incurred.

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with ASC Topic 805 Business Combinations and ASC Topic 350 Intangibles Goodwill and

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued

Real Estate, continued

Other , and allocates acquisition price based on these assessments. Fixed-rate renewal options have been included in the calculation of the fair value of acquired leases. To the extent there were fixed-rate options at below-market rental rates, the Company included these along with the current term below-market rent in arriving at the fair value of the acquired leases. The discounted difference between contract and market rents is being amortized over the remaining applicable lease term, inclusive of any option periods. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

The Company reviews its long-lived assets used in operations for impairment when there is an event, or change in circumstances that indicates that the carrying amount may not be recoverable. The Company records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying cost to fair value, and for properties held for sale, the Company reduces its carrying value to the fair value less costs to sell. During the years ended December 31, 2010, 2009 and 2008, no impairment losses were recognized. Management does not believe that the values of its properties within the portfolio are impaired as of December 31, 2010.

Sale of Real Estate

The Company recognizes property sales in accordance with ASC Topic 970 Real Estate . The Company generally records the sales of operating properties and outparcels using the full accrual method at closing when the earnings process is deemed to be complete. Sales not qualifying for full recognition at the time of sale are accounted for under other appropriate deferral methods.

Real Estate Held for Sale

The Company evaluates the held-for-sale classification of its real estate each quarter. Assets that are classified as held for sale are recorded at the lower of their carrying amount or fair value less cost to sell. Assets are generally classified as held for sale once management has initiated an active program to market them for sale and has received a firm purchase commitment. The results of operations of these real estate properties are reflected as discontinued operations in all periods reported.

On occasion, the Company will receive unsolicited offers from third parties to buy individual Company properties. Under these circumstances, the Company will classify the properties as held for sale when a sales contract is executed with no contingencies and the prospective buyer has funds at risk to ensure performance.

Deferred Costs

Fees and costs paid in the successful negotiation of leases are deferred and amortized on a straight-line basis over the terms of the respective leases. Fees and costs incurred in connection with obtaining financing are deferred and amortized over the term of the related debt obligation.

Management Contracts

Income from management contracts is recognized on an accrual basis as such fees are earned. The initial acquisition cost of the management contracts are amortized over the estimated lives of the contracts acquired.

Revenue Recognition and Accounts Receivable

Leases with tenants are accounted for as operating leases. Minimum rents are recognized on a straight-line basis over the term of the respective leases, beginning when the tenant is entitled to take possession of the space. As of December 31, 2010 and 2009, included in rents receivable, net on the accompanying consolidated balance sheets, unbilled rents receivable relating to straight-lining of rents were $17.1 million and $12.7 million, respectively. Certain of these leases also provide for percentage rents based upon the level of sales achieved by the tenant. Percentage rent is recognized in the period when the tenants sales breakpoint is met. In addition, leases typically provide for the reimbursement to the Company of real estate taxes, insurance and other property operating expenses. These reimbursements are recognized as revenue in the period the expenses are incurred.

The Company makes estimates of the uncollectability of its accounts receivable related to tenant revenues. An allowance for doubtful accounts has been provided against certain tenant accounts receivable that are estimated to be uncollectible. Once the amount is ultimately deemed to be uncollectible, it is written off. Rents receivable at December 31, 2010 and 2009 are shown net of an allowance for doubtful accounts of $7.5 million and $7.0 million, respectively.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued

Notes Receivable and Preferred Equity Investments

Notes receivable and preferred equity investments are intended to be held to maturity and are carried at amortized cost. Interest income from notes receivable and preferred equity investments are recognized on the effective interest method over the expected life of the loan. Under the effective interest method, interest or fees to be collected at the origination of the loan or the payoff of the loan are recognized over the term of the loan as an adjustment to yield.

Allowances for real estate notes receivable are established based upon management s quarterly review of the investments. In performing this review, management considers the estimated net recoverable value of the loan as well as other factors, including the fair value of any collateral, the amount and status of any senior debt, and the prospects for the borrower. Because this determination is based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized from the loans may differ materially from the carrying value at the balance sheet date. Interest income recognition is generally suspended for loans when, in the opinion of management, a full recovery of income and principal becomes doubtful. Income recognition is resumed when the suspended loan becomes contractually current and performance is demonstrated to be resumed.

During 2009, the Company provided a $1.7 million reserve on a note receivable as a result of the loss of an anchor tenant at the underlying collateral property. During 2008, the Company provided a $4.4 million reserve on a note receivable collateralized by an interest in an entity owning retail complexes associated with seven public rest stops along the toll roads in and around Chicago, Illinois. The note and all accrued interest was subsequently cancelled during 2009. Management believes that the balance of notes receivable are collectible as of December 31, 2010.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed the federally insured limit by the Federal Deposit Insurance Corporation. The Company has never experienced any losses related to these balances.

Restricted Cash and Cash in Escrow

Restricted cash and cash in escrow consist principally of cash held for real estate taxes, construction costs, property maintenance, insurance, minimum occupancy and property operating income requirements at specific properties as required by certain loan agreements.

Income Taxes

The Company has made an election to be taxed, and believes it qualifies as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). To maintain REIT status for Federal income tax purposes, the Company is generally required to distribute at least 90% of its REIT taxable income to its stockholders as well as comply with certain other income, asset and organizational requirements as defined in the Code. Accordingly, the Company is generally not subject to Federal corporate income tax to the extent that it distributes 100% of its REIT taxable income each year.

Although it may qualify for REIT status for Federal income tax purposes, the Company is subject to state income or franchise taxes in certain states in which some of its properties are located. In addition, taxable income from non-REIT activities managed through the Company s taxable REIT subsidiary (TRS) is fully subject to Federal, state and local income taxes.

The Company accounts for TRS income taxes under the liability method as required by ASC Topic 740 Income Taxes. Under the liability method, deferred income taxes are recognized for the temporary differences between GAAP basis and the tax basis of the TRS income, assets and liabilities.

In accordance with ASC Topic 740 Income Taxes (formerly FASB Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of SFAS No. 109), the Company believes that it has appropriate support for the income tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on the Company s financial position or results of operation. The prior three years income tax returns are subject to review by the Internal Revenue Service. The Company will recognize potential interest and penalties related to uncertain tax positions, if any, as a component of the provision for income taxes.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued

Stock-based Compensation

The Company accounts for stock-based compensation pursuant to ASC Topic 718 Compensation Stock Compensation . As such, all equity based awards are reflected as compensation expense in the Company s consolidated financial statements over their vesting period based on the fair value at the date of grant.

Recent Accounting Pronouncements

During June 2009, the FASB issued a new accounting standard, which provided certain changes to the evaluation of a variable interest entity (VIE) including requiring a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE, continuous assessments of whether an enterprise is the primary beneficiary of a VIE and enhanced disclosures about an enterprise s involvement with a VIE. Under the new standard, the primary beneficiary has both the power to direct the activities that most significantly impact economic performance of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The adoption of the standard on January 1, 2010 did not have a material impact on the Company s consolidated financial statements.

During January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06 Improving Disclosures about Fair Value Measurements, which provides for new disclosures, as well as clarification of existing disclosures on fair value measurements. The adoption of the standard on January 1, 2010 did not have a material impact on the Company s financial position and results of operations.

During February 2010, the FASB issued ASU No. 2010-09 Subsequent Events (ASC Topic 855) Amendments to Certain Recognition and Disclosure Requirements, which requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated. The adoption did not have an impact on the Company s financial position and results of operations.

During July 2010, the FASB issued ASU No. 2010-20 Receivables (ASC Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which requires companies to provide more information about the credit quality of their financing receivables in the disclosures to financial statements including, but not limited to, significant purchases and sales of financing receivables, aging information and credit quality indicators. The adoption of this accounting guidance did not have a significant impact on the Company s consolidated financial statements.

Comprehensive income

The following table sets forth comprehensive income for the years ended December 31, 2010, 2009 and 2008:

	Years ended December 31,		
(dollars in thousands)	**2010**	**2009**	**2008**
Net income attributable to Common Shareholders	$ 30,057	$ 31,133	$ 25,068
Other comprehensive income (loss)	137	1,514	(3,555)
Comprehensive income attributable to Common Shareholders	$ 30,194	$ 32,647	$ 21,513

Other comprehensive income relates to the changes in the fair value of derivative instruments accounted for as cash flow hedges and the amortization, which is included in interest expense, of derivative instruments.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued

The following table sets forth the change in accumulated other comprehensive loss for the years ended December 31, 2010 and 2009:

Accumulated other comprehensive loss

(dollars in thousands)	Years ended December 31, 2010	2009
Beginning balance	$ (2,994)	$ (4,508)
Unrealized loss on valuation of derivative instruments and amortization of derivative	(2,329)	(912)
Reclassification of loss on derivative instruments to interest expense	2,466	2,426
Ending balance	$ (2,857)	$ (2,994)

2. Acquisition and Disposition of Properties and Discontinued Operations

A. Acquisition and Disposition of Properties

Acquisitions

On December 23, 2010, the Company, through Fund III in a joint venture with an unaffiliated partner, acquired White City Shopping Center, a 255,000 square foot center located in Shrewsbury, Massachusetts for $56.0 million.

Prior to June 30, 2010, the Company, through Fund II in a joint venture with an unaffiliated partner, California Urban Investment Partners, LLC (CUIP), owned a leasehold interest in CityPoint, a mixed-use, redevelopment project located in downtown Brooklyn, New York. Fund II owned a 75% interest in the retail component, a 50% interest in the office component and no interest in the residential component of CityPoint. CUIP owned the remaining interests in the retail and office components and 100% of the residential component of the project. Accordingly, Fund II s investment represented 24.75% of the overall original acquisition cost and subsequent carry and pre-development costs and was accounted for using the equity method.

On June 30, 2010, Fund II acquired all of CUIP s interest in CityPoint for $9.2 million (the Transaction), consisting of a current payment of $2.0 million and deferred payments, potentially through 2020, aggregating $7.2 million. Fund II also assumed CUIP s share of the first mortgage debt, $19.6 million.

The Transaction was a business combination achieved in stages, and as a result, Fund II was required to report its entire investment in CityPoint at fair market value. Based on a June 30, 2010 third-party appraisal, CityPoint was valued at $108.0 million which resulted in Fund II recording a non-cash gain from bargain purchase of approximately $33.8 million. A majority of the gain was attributable to the components of CityPoint that was acquired as the book value of the Company s original investment approximated fair value. The Operating Partnership s share of this gain, net of the noncontrolling interests share, totaled $6.3 million.

As a result of the Transaction, the Company changed its method of accounting for CityPoint from the equity method and now consolidates CityPoint in its consolidated financial statements. As CityPoint is currently in the redevelopment stage, there are no revenues or earnings from CityPoint included in the Company s Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008.

On January 29, 2009, the Company acquired the 641,000 square foot Cortlandt Towne Center in Cortlandt, NY for $78.0 million.

On February 29, 2008, the Company acquired a portfolio of 11 self-storage properties located throughout New York and New Jersey for approximately $174.0 million. The portfolio totals approximately 920,000 net rentable square feet.

On April 22, 2008, the Company acquired a 20,000 square foot single tenant retail property located in Manhattan, New York for $9.7 million.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dispositions

During 2010, 2009 and 2008, the Company disposed of the following properties:

(dollars in thousands) **Property**	**Year Sold**	**Sales Price**	**Gain**	**GLA**
Blackman Plaza	2009	$ 2,500	$ 1,506	125,264
Six Kroger locations	2009	9,481	5,637	277,700
Village Apartments	2008	23,300	7,182	599,106
Total		$ 35,281	$ 14,325	1,002,070

Subsequent to December 31, 2010, the Company sold a property in Oakbrook, Illinois for $8.2 million which resulted in a gain of $3.9 million. Reference is made to Note 23 for an overview of the sale.

B. Discontinued Operations

The Company reports properties held-for-sale and properties sold during the periods as discontinued operations. The combined assets and liabilities and results of operations of discontinued operations are reflected as a separate component within the accompanying Consolidated Financial Statements for all periods presented.

The combined assets and liabilities as of December 31, 2010 and December 31, 2009 and results of operations of the properties classified as discontinued operations for the years ended December 31, 2010, 2009 and 2008 are summarized as follows:

BALANCE SHEETS

ASSETS	**December 31, 2010**	**December 31, 2009**
(dollars in thousands)		
Net real estate	$ 4,046	$ 4,485
Rents receivable, net	69	69
Prepaid expenses and other assets, net	13	2
Total assets of discontinued operations	$ 4,128	$ 4,556
LIABILITIES		
Mortgage Notes Payable		
Accounts payable and accrued expenses		
Other liabilities		
Total liabilities of discontinued operations	$	$

STATEMENTS OF OPERATIONS	**Years ended December 31,** **2010**	**2009**	**2008**

(dollars in thousands)			
Total revenues	$ 1,000	$ 1,644	$ 5,136
Total expenses	620	1,160	3,398
Operating Income	380	484	1,738
Gain on sale of property		7,143	7,182
Income from discontinued operations	380	7,627	8,920
Income from discontinued operations attributable to noncontrolling interests in subsidiaries	(303)	(5,045)	(931)
Income from discontinued operations attributable to Common Shareholders	$ 77	$ 2,582	$ 7,989

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Segment Reporting

The Company has five reportable segments: Core Portfolio, Opportunity Funds, Self-Storage Portfolio, Notes Receivable and Other. Notes Receivable consists of the Company s notes receivable and preferred equity investment and related interest income. Other consists primarily of management fees and interest income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. Investments in the Core Portfolio are typically held long-term. Given the contemplated finite life of the Opportunity Funds, these investments are typically held for shorter terms. Fees earned by the Company as the general partner/member of the Opportunity Funds are eliminated in the Company s consolidated financial statements. The following table sets forth certain segment information for the Company, reclassified for discontinued operations, as of and for the years ended December 31, 2010, 2009, and 2008 (does not include unconsolidated affiliates):

2010

(dollars in thousands)	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable	Other	Elimination	Total
Revenues	$ 62,121	$ 47,938	$ 21,314	$ 19,161	$ 22,479	$ (21,055)	$ 151,958
Property operating expenses and real estate taxes	19,470	18,118	13,107			(1,536)	49,159
Other expenses	22,439	13,588				(15,807)	20,220
Income before depreciation and amortization	$ 20,212	$ 16,232	$ 8,207	$ 19,161	$ 22,479	$ (3,712)	$ 82,579
Depreciation and amortization	$ 16,251	$ 19,423	$ 5,083	$	$	$ (642)	$ 40,115
Interest and other finance expense	$ 17,137	$ 13,445	$ 4,129	$	$	$ (240)	$ 34,471
Real estate at cost	$ 481,130	$ 708,501	$ 210,017	$	$	$ (13,349)	$ 1,386,299
Total assets	$ 574,497	$ 772,715	$ 194,003	$ 89,202	$	$ (105,611)	$ 1,524,806
Expenditures for real estate and improvements	$ 4,137	$ 77,309	$ 1,376	$	$	$ (2,302)	$ 80,520

Reconciliation to net income and net income attributable to Common Shareholders

Net property income before depreciation and amortization	$ 82,579
Other interest income	408
Depreciation and amortization	(40,115)
Equity in earnings of unconsolidated affiliates	10,971
Interest and other finance expense	(34,471)
Income tax expense	(2,890)
Gain from bargain purchase	33,805
Income from discontinued operations	380
Net income	50,667
Net (income) attributable to noncontrolling interests	(20,610)

Net income attributable to Common Shareholders	$	30,057

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Segment Reporting, continued

2009

(dollars in thousands)	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable	Other	Elimination	Total
Revenues	$ 69,556	$ 43,326	$ 11,166	$ 19,698	$ 23,265	$ (21,308)	$ 145,703
Property operating expenses and real estate taxes	21,266	15,362	10,985			(1,150)	46,463
Reserve for notes receivable				1,734			1,734
Abandonment of project costs	12	2,475					2,487
Other expenses	23,983	13,600				(15,570)	22,013
Income before depreciation and amortization	$ 24,295	$ 11,889	$ 181	$ 17,964	$ 23,265	$ (4,588)	$ 73,006
Depreciation and amortization	$ 17,201	$ 16,466	$ 4,437	$	$	$ (1,470)	$ 36,634
Interest and other finance expense	$ 18,744	$ 8,404	$ 5,006	$	$	$	$ 32,154
Real estate at cost	$ 475,486	$ 527,342	$ 208,702	$	$	$ (11,047)	$ 1,200,483
Total assets	$ 558,240	$ 607,706	$ 196,658	$ 125,221	$	$ (105,361)	$ 1,382,464
Expenditures for real estate and improvements	$ 3,161	$ 116,734	$ 10,996	$	$	$ (3,569)	$ 127,322

Reconciliation to net income and net income attributable to Common Shareholders	
Net property income before depreciation and amortization	$ 73,006
Other interest income	642
Depreciation and amortization	(36,634)
Equity in losses of unconsolidated affiliates	(1,529)
Impairment of investment in unconsolidated affiliates	(3,768)
Interest and other finance expense	(32,154)
Gain on debt extinguishment	7,057
Income tax expense	(1,541)
Gain on sale of property	7,143
Income from discontinued operations	484
Net income	12,706
Net loss attributable to noncontrolling interests	18,427
	$ 31,133

Net income attributable to Common Shareholders	

2008

	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable	Other	Elimination	Total
Revenues	$ 65,349	$ 47,400	$ 5,589	$ 11,163	$ 27,296	$ (23,231)	$ 133,566
Property operating expenses and real estate taxes	20,974	8,829	6,618			(381)	36,040
Reserve for notes receivable				4,392			4,392
Abandonment of project costs		630					630
Other expenses	26,007	16,131	58			(17,651)	24,545
Income (loss) before depreciation and amortization	$ 18,368	$ 21,810	$ (1,087)	$ 6,771	$ 27,296	$ (5,199)	$ 67,959
Depreciation and amortization	$ 20,295	$ 9,452	$ 3,002	$	$	$	$ 32,749
Interest and other finance expense	$ 19,698	$ 5,797	$ 3,402	$	$	$ (4)	$ 28,893
Real estate at cost	$ 474,684	$ 433,189	$ 186,529	$	$	$ (7,478)	$ 1,086,924
Total assets	$ 567,882	$ 487,182	$ 194,992	$ 125,587	$	$ (84,260)	$ 1,291,383
Expenditures for real estate and improvements	$ 18,424	$ 94,191	$ 135,391	$	$	$ (2,973)	$ 245,033

Reconciliation to net income and net income attributable to Common Shareholders

Net property income before depreciation and amortization	$ 67,959
Other interest income	3,370
Depreciation and amortization	(32,749)
Equity in earnings of unconsolidated affiliates	19,906
Interest and other finance expense	(28,893)
Gain on debt extinguishment	1,523
Income tax expense	(3,362)
Gain on sale of land	763
Gain on sale of property	7,182
Income from discontinued operations	1,738
Net income	37,437
Net income attributable to noncontrolling interests	(12,369)
Net income attributable to Common Shareholders	$ 25,068

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Investments In and Advances to Unconsolidated Affiliates

Core Portfolio

Brandywine Portfolio

The Company owns a 22.2% interest in an approximately one million square foot retail portfolio (the Brandywine Portfolio) located in Wilmington, Delaware that is accounted for under the equity method.

Crossroads

The Company owns a 49% interest in the Crossroads Joint Venture and Crossroads II (collectively, Crossroads), which own a 311,000 square foot shopping center located in White Plains, New York that is accounted for under the equity method.

Opportunity Funds

RCP Venture

The Company along with Klaff Realty, LP (Klaff) and Lubert-Adler Management, Inc., formed an investment group, the RCP Venture, for the purpose of making investments in surplus or underutilized properties owned by retailers. The RCP Venture is neither a single entity nor a specific investment. Any member of this group has the option of participating, or not, in any individual investment and each individual investment has been made on a stand-alone basis through a separate limited liability company (LLC). These investments have been made through different investment vehicles with different affiliated and unaffiliated investors and different economics to the Company. Investments under the RCP Venture are structured as separate joint ventures as there may be other investors participating in certain investments in addition to Klaff, Lubert-Adler and Acadia. The Company has made these investments through its subsidiaries, Mervyns I, Mervyns II and Fund II, (together the Acadia Investors), all on a non-recourse basis. Through December 31, 2010, the Acadia Investors have made investments in Mervyns Department Stores (Mervyns) and Albertson s including additional investments in locations that are separate from these original investments (Add-On Investments). Additionally, they have invested in Shopko, Marsh and Rex Stores Corporation (collectively Other RCP Investments).

Mervyns Department Stores

Through Mervyns I and Mervyns II, the Company invested in a consortium to acquire Mervyns consisting of 262 stores (REALCO) and its retail operation (OPCO) from Target Corporation. The Company s share of this investment was $23.2 million. Subsequent to the initial acquisition, the Company, through Mervyns I and Mervyns II, made additional investments of $2.9 million. To date, REALCO has disposed of a significant portion of the portfolio. In addition, in November 2007, the Company sold its interest in OPCO and, as a result, has no further investment in OPCO. Through December 31, 2010, the Company has received distributions from this investment totaling $46.0 million.

Through December 31, 2010, the Company, through Mervyns I and Mervyns II, made Add-On Investments in Mervyns totaling $6.5 million and have received distributions totaling $1.7 million.

Albertson s

The RCP Venture made its second investment as part of an investment consortium, acquiring Albertson s and Cub Foods, of which the Company s share was $20.7 million. Through December 31, 2010, the Company has received distributions from this investment totaling $77.1 million, including $11.4 million received in 2010.

Through December 31, 2010, the Company, through Mervyns II, made Add-On Investments in Albertson s totaling $2.4 million and received distributions totaling $1.2 million.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Investments In and Advances to Unconsolidated Affiliates, continued

Other RCP Investments

Through December 31, 2010, the Company, through Fund II, made investments of $1.1 million in Shopko, $0.7 million in Marsh, and $2.0 million in Add-On Investments in Marsh. As of December 31, 2010, the Company has received distributions totaling $1.7 million from its Shopko investment and $2.6 million from its Marsh and Marsh Add-On Investments.

During July of 2007, the RCP Venture acquired a portfolio of 87 retail properties from Rex Stores Corporation, which the Company invested through Mervyns II. The Company s share of this investment was $2.7 million. As of December 31, 2010, the Company has received distributions totaling $0.8 million.

The following table summarizes activity related to the RCP Venture investments from inception through December 31, 2010:

				Operating Partnership Share	
Investment	Year Acquired	Invested Capital and Advances	Distributions	Invested Capital and Advances	Distributions
Mervyns	2004	$ 26,058	$ 45,966	$ 4,901	$ 11,251
Mervyns Add-On Investments	2005/2008	6,517	1,703	1,046	283
Albertson s	2006	20,717	77,053	4,239	15,410
Albertson s Add-On Investments	2006/2007	2,412	1,215	387	243
Shopko	2006	1,108	1,655	222	331
Marsh and Add-on Investments	2006/2008	2,667	2,639	533	528
Rex Stores	2007	2,701	840	535	168
		$ 62,180	$ 131,071	$ 11,863	$ 28,214

The Company accounts for the original investments in Mervyns and Albertson s under the equity method of accounting as the Company has the ability to exercise significant influence, but does not have financial or operating control.

The Company accounts for the Add-On Investments and Other RCP Investments under the cost method. Due to its minor ownership interest based on the size of the investments as well as the terms of the underlying operating agreements, the Company has no influence over such entities operating and financial policies. Other than the minority investor rights to which the Company is entitled pursuant to statute, it has no rights other than to receive its pro-rata share of cash distributions as declared by the managers. The Company has no rights with respect to the control and operation of the investment vehicles, and the formulation and execution of business and investment policies. The Acadia Investors have interests in the individual investee LLC s as follows:

			Acadia Investors Ownership % in:	
Investment	Investee LLC	Acadia Investors Entity	Investee LLC	Underlying entity(s)
Mervyns	KLA/Mervyn s, L.L.C.	Mervyns I and Mervyns II	10.5%	5.8%
Mervyns Add-On Investments	KLA/Mervyn s, L.L.C.	Mervyns I and Mervyns II	10.5%	5.8%
Albertson s	KLA A Markets, LLC	Mervyns II	18.9%	5.7%

Albertson s Add-On Investments	KLA A Markets, LLC	Mervyns II	20.0%	6.0%
Shopko	KLA-Shopko, LLC	Fund II	20.0%	2.0%
Marsh and Add-On Investments	KLA Marsh, LLC	Fund II	20.0%	3.3%
Rex stores	KLAC Rex Venture, LLC	Mervyns II	13.3%	13.3%

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Investments In and Advances to Unconsolidated Affiliates continued

Other Opportunity Fund Investments

Fund I Investments

Fund I owned a 50% interest in the Sterling Heights Shopping Center, which was accounted for under the equity method of accounting. During the year ended December 31, 2009, Fund I recorded an impairment reserve of $3.7 million related to this investment. On March 25, 2010, the Sterling Heights Shopping Center was sold for $2.3 million. The proceeds from this sale together with the balance of Fund I s recourse obligation of $0.6 million were used to fully liquidate the outstanding mortgage loan obligation.

Fund II Investments

Fund II had a 24.75% interest in CityPoint, a redevelopment project located in downtown Brooklyn, NY, which was accounted for under the equity method. On June 30, 2010, Fund II acquired the remaining interests in the project from its unaffiliated partner, as discussed in Note 2 and, as a result, now consolidates the CityPoint investment.

Fund III Investments

On December 23, 2010, Fund III, in a joint venture with an unaffiliated partner, acquired the 255,200 square foot White City Shopping Center in Shrewsbury, Massachusetts for $56.0 million. Fund III has an 84% interest in the property. The unaffiliated joint venture partner will maintain control over this entity, and as such, the Company accounts for this investment under the equity method.

During June 2010, Fund III, in a joint venture with an unaffiliated partner, invested in an entity for the purpose of providing management services to owners of self-storage properties, including the 14 locations currently owned through Fund II and Fund III. Fund III has a 50% interest in the entity. This entity was determined to be a variable interest entity for which the Company was determined not to be the primary beneficiary. As such, the Company accounts for this investment under the equity method.

Summary of Investments in Unconsolidated Affiliates

The following combined/condensed Balance Sheets and Statements of Operations, in each period, summarize the financial information of the Company s investments in unconsolidated affiliates.

(dollars in thousands)	December 31, 2010	December 31, 2009
Combined/Condensed Balance Sheets		
Assets:		
Rental property, net	$ 186,802	$ 142,690
Real estate under development		100,346
Investment in unconsolidated affiliates	192,002	209,407
Other assets	27,841	20,951
Total assets	$ 406,645	$ 473,394
Liabilities and partners equity:		
Mortgage note payable	$ 267,565	$ 258,685
Other liabilities	13,815	12,085
Partners equity	125,265	202,624

Total liabilities and partners equity	$ 406,645	$ 473,394
Company s investment in and advances to unconsolidated affiliates	$ 31,036	$ 51,712
Share of distributions in excess of share of income and investments in unconsolidated affiliates	$ (20,884)	$ (20,589)

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Investments In and Advances to Unconsolidated Affiliates, continued

Summary of Investments in Unconsolidated Affiliates, continued

	Years Ended December 31,		
(dollars in thousands)	2010	2009	2008
Combined/Condensed Statements of Operations			
Total revenues	$ 29,460	$ 30,835	$ 30,457
Operating and other expenses	10,617	9,851	11,560
Interest expense	13,525	13,786	14,133
Equity in earnings (losses) of unconsolidated affiliates	56,482	(30,568)	177,775
Depreciation and amortization	4,839	5,152	5,333
(Loss) gain on sale of property, net	(2,957)	(390)	6,838
Net income (loss)	$ 54,004	$ (28,912)	$ 184,044
Company s share of net income (loss)	$ 11,363	$ (1,141)	$ 20,297
Impairment reserve		(3,768)	
Amortization of excess investment	(392)	(388)	(391)
Company s share of net income (loss)	$ 10,971	$ (5,297)	$ 19,906

5. Notes Receivable and Preferred Equity Investment

At December 31, 2010, the Company s notes receivable, net aggregated $89.2 million, and were collateralized by the underlying properties, the borrower s ownership interest in the entities that own the properties and/or by the borrower s personal guarantee. Notes receivable are as follows:

Description	Effective interest rate	Final maturity date	Periodic payment terms	Prior liens	Face amount of mortgages	Carrying amount of mortgages
(dollars in thousands)						
72nd Street	20.85%	7/18/2011	(1)	$ 170,727	$ 47,000	$ 46,715
Georgetown	10.23%	11/12/2011	(3)	9,596	8,000	8,000
Mezzanine Loan	14.50%	6/30/2011	(2)		8,585	8,585
Zero Coupon Loan	24.00%	1/3/2016	(3)	166,200	5,644	3,225
Mezzanine Loan	13.00%	9/11/2011	(3)		2,980	2,980
First Mortgage Loan	10.77%	9/11/2011	(3)		10,000	10,000
Individually less than 3%	10.00% - 17.50%	Demand note 1/1/2017		106,089	15,722	9,697
Total					$ 97,931	$ 89,202

Notes:
(1) Principal and interest, including a $7.5 million exit fee, are due upon maturity.
(2) Payable upon maturity.

(3) Interest only payable monthly, principal due on maturity.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Notes Receivable and Preferred Equity Investment, continued

During April 2010, the Company received a payment of $2.1 million and during December 2009 received a payment of $4.7 million, both representing paydowns on its first mortgage loan secured by three retail properties, following the sale of two of the collateralized properties.

During December 2009, the Company made a loan of $8.6 million which bears interest at 14.5% and matures on June 30, 2011.

During August 2009, the Company received a payment of $2.8 million, representing the entire balance on its first mortgage loan secured by an interest in a property in Pennsylvania.

During August 2009, the Company received a payment of $5.1 million, representing a paydown on its first mortgage loan secured by an interest in a single tenant property located in Long Island, New York.

During June 2009, the Company received a payment of $0.7 million, representing a paydown on its loan secured by an interest in a property in South Carolina.

During March 2009, the Company received a payment of $0.3 million, representing the entire balance on a loan secured by an interest in a property in South Carolina.

During June 2008, the Company made a $40.0 million preferred equity investment in an entity that owns a portfolio of 18 properties located primarily in Georgetown, Washington D.C. The portfolio consists of 306,000 square feet of principally retail space. The original term of this investment was for two years, with two one year extensions, and provided a 13% preferred return. During September 2010, the Company received its entire $40.0 million of invested equity and $9.4 million of accrued preferred return.

During July 2008, the Company made a $34.0 million loan, which is collateralized by an interest in a mixed-use retail and residential development at 72nd Street and Broadway on the Upper West Side of Manhattan. The term of the loan is for a period of three years, with a one year extension with an effective yield, inclusive of all fees, of 20%.

During September 2008, the Company, through Fund III, made a $10.0 million first mortgage loan, which is collateralized by land located on Long Island, New York. The term of the loan was for a period of two years, and provides an effective yield of 13%. During September 2010, the loan was extended for one year at an effective yield of 11%.

The following table reconciles notes receivable and preferred equity investments from January 1, 2008 to December 31, 2010:

	For the years ended December 31,		
(dollars in thousands)	2010	2009	2008
Balance at beginning of period	$ 125,221	$ 125,587	$ 57,662
Additions during period:			
New mortgage loans		9,362	88,480
Deductions during period:			
Collections of principal	(42,010)	(13,614)	(19,922)
Amortization of premium	6,164	5,352	2,367
Reserves	(93)	(1,466)	(3,000)
Other	(80)		
Balance at close of period	$ 89,202	$ 125,221	$ 125,587

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Deferred Charges

Deferred charges consist of the following as of December 31, 2010 and 2009:

(dollars in thousands)	December 31, 2010	December 31, 2009
Deferred financing costs	$ 29,692	$ 22,852
Deferred leasing and other costs	32,501	33,169
	62,193	56,021
Accumulated amortization	(36,463)	(27,710)
	$ 25,730	$ 28,311

7. Acquired Lease Intangibles

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases, acquired in-place leases and customer relationships) and acquired liabilities in accordance with ASC Topic 805. The intangibles are amortized over the remaining non-cancelable terms of the respective leases.

The scheduled amortization of acquired lease intangible assets and liabilities as of December 31, 2010 is as follows:

(dollars in thousands)	Acquired lease intangible	
	Assets	Liabilities
2011	$ 3,029	$ 994
2012	2,578	923
2013	1,999	730
2014	1,631	451
2015	1,520	313
Thereafter	7,865	2,326
	$ 18,622	$ 5,737

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Mortgages Payable

At December 31, 2010 and 2009, mortgage notes payable, excluding the net valuation premium on the assumption of debt, aggregated $806.1 million and $732.2 million, respectively, and were collateralized by 29 and 28 properties and related tenant leases, respectively. Interest rates on the Company s outstanding mortgage indebtedness ranged from 0.86% to 7.34% with maturities that ranged from March 2011 to November 2032. Certain loans are cross-collateralized and contain cross-default provisions. The loan agreements contain customary representations, covenants and events of default. Certain loan agreements require the Company to comply with affirmative and negative covenants, including the maintenance of debt service coverage and leverage ratios.

The following reflects mortgage loan activity for the year ended December 31, 2010:

i) During January 2010, the Company closed on a $48.0 million construction loan that bears interest at LIBOR plus 400 basis points, subject to an interest rate floor of 6.50% which matures on January 12, 2012. As of December 31, 2010, $40.2 million was drawn on this facility.

ii) During March 2010, the Company extended the Fund II subscription line of credit, which was collateralized by a pledge of investors unfunded capital commitments, from March 1, 2010 to March 1, 2011 and adjusted the interest rate from LIBOR plus 250 basis points to LIBOR plus 325 basis points. In connection with the extension, the Company made an $8.2 million payment on the outstanding $48.2 million line of credit and the line of credit s maximum capacity was reduced to $40.0 million. During December 2010, the line of credit was extended further to December 22, 2014 and the interest rate reduced to LIBOR plus 290 basis points. This modification also requires principal reductions to (a) $15.0 million on October 31, 2013, (b) $11.3 million on February 1, 2014, (c) $7.5 million on May 1, 2014, and (d) $3.8 million on August 1, 2014. Additionally, a Company guarantee has replaced the unfunded capital commitments of the investors as collateral for this loan and the Company has agreed to maintain various restrictive covenants.

iii) During February of 2010, the Company paid off an outstanding line of credit balance of $2.0 million, which was collateralized by a property and scheduled to mature on March 29, 2010 and terminated the line of credit.

iv) During 2010, the Company made payments of $29.0 million on an outstanding $30.0 million credit facility collateralized by six properties.

v) During 2010, the Company made draws of $32.0 million on the Fund III subscription line of credit. As of December 31, 2010, the total outstanding amount on this line of credit was $171.5 million.

vi) During May of 2010, the Company borrowed an additional $2.0 million on an existing mortgage loan collateralized by a property.

vii) During July 2010, the Company amended and extended a $30.0 million loan, collateralized by a Fund II property located on 161st Street in the Bronx, NY. The agreement required a $1.1 million payment on the outstanding principal balance and extended the maturity date to April 1, 2013. The interest rate has been adjusted retroactively to LIBOR plus 400 basis points for the period April 1, 2010 through March 31, 2011, LIBOR plus 550 basis points for the period April 1, 2011 through March 31, 2012, and LIBOR plus 600 basis points for the period April 1, 2012 through March 31, 2013.

viii) During July of 2010, the Company closed on a $20.0 million bond financing that bears interest at a fixed rate of 7.25% that is due November 1, 2042 and has a mandatory put date of November 1, 2014.

ix) During August of 2010, the Company amended and extended the maturity date of a $25.9 million loan that was scheduled to mature in August of 2010. In connection with the release of a portion of the collateral for this loan, the Company was required to pay down the principal by $5.3 million. The amendment provided for a three year extension of the loan maturity date to August 12, 2013 with two one-year extension options.

x) Also during August of 2010, the Company completed an amendment of a $31.7 million construction loan. Previously, the servicer, on behalf of the lender of this loan, had previously alleged that non-monetary defaults had occurred, however it has subsequently agreed to dismiss all allegations of default. The loan continued to bear interest at 7.38% and had a maturity date of January 1, 2020. During December 2010, the Company closed on a new $34.0 million loan and used the proceeds to pay off this construction loan. The loan bears interest at LIBOR plus 275 basis points and matures on December 1, 2013. $31.6 million of the loan was funded at the closing and an additional $2.4 million was available for tenant improvements and leasing commissions.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Mortgages Payable, continued

xi) During September of 2010, the Company amended and extended the maturity date of a $10.5 million loan that was scheduled to mature during September 2010. The amendment required a $0.5 million principal pay down and provided for a one year extension of the loan maturity date to September 1, 2011 with a one year extension option and bears interest at LIBOR plus 325 basis points.

xii) During June 2009, the servicer, on behalf of the lender of one of the Company s loans alleged that a non-monetary default had occurred on an $11.5 million construction loan collateralized by Atlantic Avenue. The servicer alleged that the Company did not substantially complete the improvements in accordance with the required completion date as defined in the loan agreement and, accordingly, did not meet the requirements for the final draw. During October 2010, the Company and the servicer reached an agreement to amend the loan whereby all alleged events of default were waived.

xiii) During October 2010, the Company modified and extended the maturity date of a $9.8 million loan that was scheduled to mature during October 2010. The amendment required a $1.4 million principal pay down and provided for a one year extension of the loan maturity date to October 31, 2011.

xiv) During October 2010, the Company closed on a $50.0 million loan collateralized by a property. The loan bears interest at LIBOR plus 190 basis points and matures on October 26, 2015. The proceeds of this loan were used to repay the existing $46.6 million mortgage note payable. There is an additional $25.0 million available, based on the property attaining certain debt service coverage ratio levels and the lender being able to syndicate the loan. The second tranche will bear interest at LIBOR plus 230 basis points.

The following table sets forth certain information pertaining to our secured credit facilities:

(dollars in thousands) **Borrower**	**Total amount of credit facility**	**Amount borrowed as of December 31, 2009**	**Net borrowings (repayments) during the year ended December 31, 2010**	**Amount borrowed as of December 31, 2010**	**Letters of credit outstanding as of December 31, 2010**	**Amount available under credit facilities as of December 31, 2010**
Acadia Realty, LP	$ 64,498	$ 30,000	$ (29,000)	$ 1,000	$ 8,610	$ 54,888
Acadia Realty, LP		2,000	(2,000)			
Fund II	40,000	48,245	(8,245)	40,000		
Fund III	221,000	139,450	32,000	171,450	500	49,050
Total	$ 325,498	$ 219,695	$ (7,245)	$ 212,450	$ 9,110	$ 103,938

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Mortgages Payable, continued

The following table summarizes the Company s mortgage and other secured indebtedness as of December 31, 2010 and December 31, 2009:

(dollars in thousands)

Description of Debt and Collateral	December 31, 2010	December 31, 2009	Interest Rate at December 31, 2010	Maturity	Payment Terms
Mortgage notes payable variable-rate					
Liberty Avenue	$ 10,000	$ 10,450	3.51% (LIBOR +3.25%)	9/1/2011	Interest only monthly.
Fordham Place	85,910	86,000	Greater of 1.5%+3.5% or 5.00% (LIBOR +3.5%)	10/4/2011	Interest only monthly.
Tarrytown Shopping Center	8,427	9,800	1.91% (LIBOR +1.65%)	10/30/2011	Interest only monthly.
Branch Shopping Plaza	13,932	14,179	1.56% (LIBOR +1.30%)	12/1/2011	Monthly principal and interest.
Canarsie Plaza	40,243		Greater of 6.50% or 4.26% (LIBOR +4.00%)	1/12/2012	Interest only monthly.
Village Commons Shopping Center	9,305	9,467	1.66% (LIBOR +1.40%)	6/29/2012	Monthly principal and interest.
161st Street	28,900	30,000	4.26% (LIBOR +4.00%)	4/1/2013	Interest only monthly.
CityPoint	20,650		2.76% (LIBOR +2.50%)	8/12/2013	Interest only monthly.
Pelham Manor	31,554		3.01% (LIBOR +2.75%)	12/1/2013	Monthly principal and interest.
Cortlandt Towne Center	50,000	44,878	2.16% (LIBOR +1.90%)	10/26/2015	Monthly principal and interest.
Sub-total mortgage notes payable	298,921	204,774			
Secured credit facilities variable-rate:					
Fund III unfunded investor capital commitments	171,450	139,450	0.86% (LIBOR +0.60%)	10/9/2011	Interest only monthly.
Six Core Portfolio properties	1,000	30,000	1.51% (LIBOR +1.25%)	12/1/2011	Annual principal and monthly interest.
Fund II	40,000	48,245	3.16% (LIBOR +2.90%)	12/22/2014	Interest only monthly.
Ledgewood Mall		2,000	1.51% (LIBOR +1.25%)		
Sub-total secured credit facilities	212,450	219,695			
Interest rate swaps (1)	(71,535)	(83,416)			
Total variable-rate debt	439,836	341,053			

Mortgage notes payable fixed-rate					
Five Self-Storage properties	41,500	41,500	5.30%	3/16/2011	Interest only monthly.
Chestnut Hill	9,338	9,481	5.45%	6/11/2013	Monthly principal and interest.
Clark Diversey	4,625	4,751	6.35%	7/1/2014	Monthly principal and interest.
New Loudon Center	14,119	14,343	5.64%	9/6/2014	Monthly principal and interest.
CityPoint	20,000		7.25%	11/1/2014	Interest only quarterly.
Crescent Plaza	17,539	17,600	4.98%	9/6/2015	Monthly principal and interest.
Pacesetter Park Shopping Center	12,132	12,313	5.12%	11/6/2015	Monthly principal and interest.
Elmwood Park Shopping Center	34,197	34,600	5.53%	1/1/2016	Monthly principal and interest.
The Gateway Shopping Center	20,500	20,500	5.44%	3/1/2016	Interest only monthly.
Walnut Hill Plaza	23,500	23,500	6.06%	10/1/2016	Interest only monthly until 10/11; monthly principal and interest thereafter.
239 Greenwich Avenue	26,000	26,000	5.42%	2/11/2017	Interest only monthly.
Merrillville Plaza	26,250	26,250	5.88%	8/1/2017	Interest only monthly until 7/12 monthly principal and interest thereafter.
216th Street	25,500	25,500	5.80%	10/1/2017	Interest only monthly.
Pelham Manor Shopping Plaza		31,652	7.18%		
Atlantic Avenue	11,540	11,543	7.34%	1/1/2020	Interest only upon drawdown on construction loan until 1/15 monthly principal and interest thereafter.
A&P Shopping Plaza	8,033	8,182	6.40%	11/1/2032	Monthly principal and interest.
Interest rate swaps (1)	71,535	83,416	5.46%		
Total fixed-rate debt	366,308	391,131			
Unamortized premium	68	103			
Total	$ 806,212	$ 732,287			

(1) Represents the amount of the Company s variable-rate debt that has been fixed through certain cash flow hedge transactions. (Note 10).

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Mortgages Payable, continued

The scheduled principal repayments of all indebtedness including Convertible Notes as of December 31, 2010 are as follows (does not include $68,000 net valuation premium on assumption of debt):

(dollars in thousands)	
2011	$ 384,668
2012	53,374
2013	103,443
2014	64,452
2015	79,268
Thereafter	169,651
	$ 854,856

9. Convertible Notes Payable

In December 2006 and January 2007, the Company issued a total of $115.0 million in principal of convertible notes with a fixed interest rate of 3.75% due 2026 (the Convertible Notes). The Convertible Notes were issued at par and require interest payments semi-annually in arrears on June 15 and December 15 of each year. The Convertible Notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness. The Convertible Notes have an effective interest rate of 6.03% giving effect to the accounting treatment required by ASC Topic 470-20 Debt with Conversion and Other Options (ASC Topic 470-20). The Convertible Notes had an initial conversion price of $30.86 per share. The conversion rate may be adjusted under certain circumstances, including the payment of cash dividends in excess of the regular quarterly cash dividend in place at the time the Convertible Notes were issued. As of December 31, 2010, the adjusted conversion price is $29.26. Upon conversion of the Convertible Notes, the Company will deliver cash and, in some circumstances, Common Shares, as specified in the indenture relating to the Convertible Notes. In general, the Convertible Notes may only be converted prior to maturity during any calendar quarter beginning after December 31, 2006 if the Company s Common Shares trade at 130% of the conversion price for at least 20 days within a consecutive 30 day trading period. Prior to December 20, 2011, the Company will not have the right to redeem Convertible Notes, except to preserve its status as a REIT. After December 20, 2011, the Company will have the right to redeem the notes, in whole or in part, at any time and from time to time, for cash equal to 100% of the principal amount of the notes plus any accrued and unpaid interest to, but not including, the redemption date. The Holders of notes may require the Company to repurchase their notes, in whole or in part, on December 20, 2011, December 15, 2016, and December 15, 2021 for cash equal to 100% of the principal amount of the notes to be repurchased plus any accrued and unpaid interest to, but not including, the repurchase date.

In general, upon a conversion of notes, the Company will deliver cash and, at the Company s election, its Common Shares, with an aggregate value, which the Company refers to as the conversion value , equal to the conversion rate multiplied by the average price of the Company s Common Shares. The net amount may be paid, at the Company s option, in cash, its Common Shares or a combination of cash and its Common Shares.

The Convertible Notes if-converted value does not exceed its principal amount as of December 31, 2010 and there are no derivative transactions that were entered into in connection with the issuance of the Convertible Notes.

During 2010, 2009 and 2008 the Company purchased $0.2 million, $57.0 million and $8.0 million in principal amount, respectively, of its convertible debt at an average discount of approximately 19%. The transactions resulted in a gain on debt extinguishment of $7.1 million and $1.5 million for the years ended December 31, 2009 and 2008, respectively. The outstanding Convertible Note principal amount as of December 31, 2010 and 2009 was $49.8 million and $50.0 million, respectively. The outstanding Convertible Note net carrying amount as of December 31, 2010 and 2009 was $48.7 million and $47.9 million, respectively.

Effective January 1, 2009, the Company adopted ASC Topic 470-20 which required it to retrospectively restate and reclassify previously disclosed consolidated financial statements to allocate the proceeds from the issuance of convertible debt between a debt component and an equity component. The resulting discount on the debt component is amortized over the period the convertible debt is expected to be outstanding, which is December 11, 2006 to December 20, 2011, as additional non-cash interest expense. The equity component recorded as additional paid-in capital was $11.3 million, which represented the difference between the proceeds from the issuance of the convertible notes payable and the fair value of the liability at the time of issuance.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Convertible Notes Payable, continued

The carrying amount of the equity component included in additional paid-in capital totaled $1.1 million at December 31, 2010 and $2.1 million at December 31, 2009. Interest expense relating to the contractual interest coupon recognized in the Consolidated Statements of Income was $1.9 million, $2.5 million and $4.3 million for the years ended December 31, 2010, 2009, and 2008, respectively, The additional non-cash interest expense recognized in the Consolidated Statements of Income was $1.0 million, $1.3 million and $2.1 million for the years ended December 31, 2010, 2009, and 2008, respectively. Accumulated amortization related to the convertible notes payable was $1.0 million and $0.7 million as of December 31, 2010 and December 31, 2009, respectively, after giving effect to repurchases.

The following table shows the effect of the retrospective application and reclassification of the consolidated statement of income for the year ended December 31, 2008 and consolidated statement of cash flow accounts for the year ended December 31, 2008:

(dollars in thousands, except per share amounts)	Year ended December 31, 2008		
Affected Consolidated Income Statement Accounts	**Before Adjustment**	**As Adjusted**	**Effect of Change**
Depreciation and amortization	$ 32,805	$ 32,749	$ 56
Interest expense	$ 26,792	$ 28,893	$ (2,101)
Gain on debt extinguishment	$ 1,958	$ 1,523	$ (435)
Income from continuing operations	$ 30,997	$ 28,517	$ (2,480)
Net income	$ 39,917	$ 37,437	$ (2,480)
Net income attributable to Common Shareholders	$ 27,548	$ 25,068	$ (2,480)
Basic earnings per share	$ 0.81	$ 0.74	$ (0.07)
Diluted earnings per share	$ 0.80	$ 0.73	$ (0.07)

Affected Consolidated Statement of Cash Flow Accounts	Year ended December 31, 2008		
	Before Adjustment	**As Adjusted**	**Effect of Change**
Depreciation and amortization	$ 34,964	$ 34,908	$ (56)
Gain on debt extinguishment	$ (1,958)	$ (1,523)	$ 435
Amortization of discount on convertible debt	$	$ 2,101	$ 2,101

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Financial Instruments and Fair Value Measurements

Derivative Financial Instruments

The FASB s derivative and hedging guidance establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by the FASB guidance, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

As of December 31, 2010, the Company s derivative financial instruments consisted of seven interest rate LIBOR swaps with an aggregate notional value of $71.5 million, which fix interest at rates from 0.5% to 5.1% and mature between September 2011 and November 2012. The Company also has one derivative financial instrument with a notional value of $28.9 million which caps interest at 6% and matures in April 2013. The fair value of the derivative liability of these instruments, which is included in other liabilities in the Consolidated Balance Sheets, totals $2.8 million at December 31, 2010. The notional value does not represent exposure to credit, interest rate or market risks.

These derivative instruments have been designated as cash flow hedges and hedge the future cash outflows on variable rate mortgage debt. Such instruments are reported at the fair value reflected above. As of December 31, 2010 and 2009, unrealized losses totaling $2.8 and $3.3 million, respectively were reflected in accumulated other comprehensive loss. It is estimated that approximately $2.5 million included in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense in the 2011 results of operations.

As of December 31, 2010 and 2009, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges. As of December 31, 2010, none of the Company s hedges were ineffective.

The FASB s fair value measurements and disclosure guidance requires the valuation of certain of the Company s financial assets and liabilities, based on a three-level fair value hierarchy. Market participant assumptions obtained from sources independent of the Company are observable inputs that are classified within Levels 1 and 2 of the hierarchy, and the Company s own assumptions about market participant assumptions are unobservable inputs classified within Level 3 of the hierarchy.

The following table presents the Company s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2010:

(dollars in thousands)	Level 1	Level 2	Level 3
Liabilities			
Derivative financial instruments	$	$ 2,816	$

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Financial Instruments and Fair Value Measurements, continued

Financial Instruments

Certain of the Company s assets and liabilities meet the definition of financial instruments. Except as disclosed below, the carrying amounts of these financial instruments approximates their fair value due to the short-term nature of such accounts.

The Company has determined the estimated fair values of the following financial instruments by discounting future cash flows utilizing a discount rate equivalent to the rate at which similar financial instruments would be originated at the reporting date:

(dollars in thousands)	December 31, 2010 Carrying Amount	December 31, 2010 Estimated Fair Value	December 31, 2009 Carrying Amount	December 31, 2009 Estimated Fair Value
Notes Receivable and Preferred Equity Investments	$ 89,202	$ 90,612	$ 125,221	$ 126,403
Mortgage Notes Payable and Convertible Notes Payable	$ 854,924	$ 863,639	$ 780,197	$ 751,043

11. Shareholders Equity and Noncontrolling Interests

Common Shares

During the first quarter of 2010, 57,476 employee Restricted Shares were cancelled to pay the employees income taxes due on the value of the portion of the Restricted Shares that vested. During the year ended December 31, 2010, the Company recognized accrued Common Share and Common OP Unit-based compensation totaling $3.8 million in connection with the vesting of Restricted Shares and Units (Note 15).

Noncontrolling Interests

The following table summarizes the change in the noncontrolling interests since December 31, 2009:

(dollars in thousands)	Noncontrolling Interests in Operating Partnership	Noncontrolling Interests in Partially-Owned Affiliates
Balance at December 31, 2009	$ 6,176	$ 214,116
Distributions declared of $0.72 per Common OP Unit	(723)	
Net income for the period January 1 through December 31, 2010	394	20,216
Conversion of 364,615 OP Units to Common Shares by limited partners of the Operating Partnership	(3,240)	
Other comprehensive income unrealized loss on valuation of swap agreements	22	261
Reclassification of realized interest expense on swap agreements	2	(356)
Noncontrolling interest contributions		33,556
Noncontrolling interest distributions and other reductions		(2,892)
Employee Long-term Incentive Plan Unit Awards	1,778	

Balance at December 31, 2010	$ 4,409	$ 264,901

Noncontrolling interest in the Operating Partnership represents (i) the limited partners 281,294 and 626,606 Common OP Units at December 31, 2010 and 2009, (ii) 188 Series A Preferred OP Units at December 31, 2010 and 2009, with a stated value of $1,000 per unit, which are entitled to a preferred quarterly distribution of the greater of (a) $22.50 (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) 641,534 and 393,909 LTIP units as of December 31, 2010 and December 31, 2009 respectively, as discussed in Share Incentive Plan (Note 15).

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Shareholders Equity and Noncontrolling Interests, continued

Noncontrolling Interests, continued

Noncontrolling interests in partially-owned affiliates include third-party interests in Fund I, II and III, and Mervyns I and II and three other entities.

In 2005, the Company issued 250,000 Restricted Common OP Units to Klaff in consideration for an interest in certain management contract rights. During 2010, Klaff converted the 250,000 Restricted Common OP Units into Common Shares.

The Series A Preferred OP Units were issued in 1999 in connection with the acquisition of a property. Through December 31, 2010, 1,204 Series A Preferred OP Units were converted into 160,533 Common OP Units and then into Common Shares. The 188 remaining Series A Preferred OP Units are currently convertible into Common OP Units based on the stated value divided by $7.50. Either the Company or the holders can currently call for the conversion of the Series A Preferred OP Units at the lesser of $7.50 or the market price of the Common Shares as of the conversion date.

12. Related Party Transactions

During February 2010, Klaff converted all 250,000 of its Restricted Common OP Units into 250,000 Common Shares.

In 2008 and 2009 the Company earned asset management, leasing, disposition, development and construction fees for providing services to an existing portfolio of retail properties and/or leasehold interests in which Klaff had an interest. Fees earned by the Company in connection with this portfolio were $0.0 million, $0.4 million and $0.8 million for the years ended December 31, 2010, 2009 and 2008 respectively.

The Company earns fees from two of its investments in unconsolidated partnerships (Note 4). The Company earned property management, construction, legal and leasing fees from the Brandywine Portfolio totaling $0.8 million, $0.7 million and $1.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. In addition, the Company earned property management and development fees from CityPoint totaling $1.0 million for the year ended December 31, 2008.

Lee Wielansky, the Lead Trustee of the Company, was paid a consulting fee of $0.1 million for each of the years ended December 31, 2010, 2009, and 2008.

13. Tenant Leases

Space in the shopping centers and other retail properties is leased to various tenants under operating leases that usually grant tenants renewal options and generally provide for additional rents based on certain operating expenses as well as tenants sales volume.

Minimum future rentals to be received under non-cancelable leases for shopping centers and other retail properties as of December 31, 2010 are summarized as follows:

(dollars in thousands)		
2011	$	94,214
2012		88,108
2013		80,087
2014		68,512
2015		60,244
Thereafter		546,444
	$	937,609

During the years ended December 31, 2010, 2009 and 2008, no single tenant collectively accounted for more than 10% of the Company s total revenues.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Lease Obligations

The Company leases land at 24 of its shopping centers, which are accounted for as operating leases and generally provide the Company with renewal options. Ground rent expense was $3.7 million, $2.5 million, and $2.3 million (including capitalized ground rent at properties under development of $0.5 million, $0.6 million and $1.1 million) for the years ended December 31, 2010, 2009 and 2008, respectively. The leases terminate at various dates between 2020 and 2078. These leases provide the Company with options to renew for additional terms aggregating from 20 to 60 years. The Company leases space for its White Plains corporate office for a term expiring in 2015. Office rent expense under this lease was $1.5 million, $1.5 million and $1.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. Future minimum rental payments required for leases having remaining non-cancelable lease terms are as follows:

(dollars in thousands)	
2011	$ 5,372
2012	6,008
2013	6,033
2014	5,574
2015	5,375
Thereafter	143,216
	$ 171,578

15. Share Incentive Plan

During 2003, the Company adopted the 2003 Share Incentive Plan (the 2003 Plan). The 2003 Plan authorizes the issuance of options, share appreciation rights, restricted shares (Restricted Shares), restricted OP Units (LTIP Units) and performance units (collectively, Awards) to officers, employees and trustees of the Company and consultants to the Company equal to up to four percent of the total Common Shares of the Company outstanding from time to time on a fully diluted basis. However, no participant may receive more than the equivalent of 1,000,000 Common Shares during the term of the 2003 Plan with respect to Awards. Options are granted by the Compensation Committee (the Committee), which currently consists of three non-employee Trustees, and will not have an exercise price less than 100% of the fair market value of the Common Shares and a term of greater than ten years at the grant date. Vesting of options is at the discretion of the Committee. Share appreciation rights provide for the participant to receive, upon exercise, cash and/or Common Shares, at the discretion of the Committee, equal to the excess of the market value of the Common Shares at the exercise date over the market value of the Common Shares at the grant date. The Committee determines the restrictions placed on Awards, including the dividends or distributions thereon and the term of such restrictions. The Committee also determines the award and vesting of performance units and performance shares based on the attainment of specified performance objectives of the Company within a specified performance period. Through December 31, 2010, no share appreciation rights or performance units/shares had been awarded. In connection with the Awards, to the extent that a portion of senior management s cash bonus is converted into elective Awards, the number of shares issued are at a 25% discount and vest over time.

During 2006, the Company adopted the 2006 Share Incentive Plan (the 2006 Plan). The 2006 Plan is substantially similar to the 2003 Plan, except that the maximum number of Common Share equivalents that the Company may issue pursuant to the 2006 Plan is 500,000.

On March 1, 2010 and March 10, 2010, the Company issued 265,517 LTIP Units and 1,462 Restricted Shares to officers of the Company and 15,011 Restricted Shares and 1,411 LTIP Units to employees of the Company. Vesting with respect to these awards is recognized ratably over the five annual anniversaries following the issuance date. Vesting on 23% of the awards issued to officers are also generally subject to achieving certain Company performance measures. LTIP Units are similar to Restricted Shares but provide for a quarterly partnership distribution in a like amount as paid to Common OP Units. This distribution is paid on both unvested and vested LTIP Units. The LTIP Units are convertible into Common OP Units and Common Shares upon vesting and a revaluation of the book capital accounts.

These awards were measured at their fair value as if they were vested on the grant date. Fair value was established as the market price of the Company s Common Shares as of the close of trading on the day preceding the grant date.

The total value of the above Restricted Shares and LTIP Units as of the grant date was $4.7 million. The weighted average fair value for Restricted Shares and LTIP Units granted for the years ended December 31, 2010, 2009 and 2008 were $16.73, $10.31 and $24.51, respectively.

Total long-term incentive compensation expense, including the expense related to the above mentioned plans, was $3.8 million, $3.7 million and $3.5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Share Incentive Plan, continued

On May 10, 2010, the Company issued 4,180 unrestricted Common Shares to Trustees of the Company in connection with Trustee fees. The Company also issued 8,000 Restricted Shares to Trustees, which vest over three years with 33% vesting on each of the three anniversaries following the issuance date. The Restricted Shares do not carry voting rights or other rights of Common Shares until vesting and may not be transferred, assigned or pledged until the recipients have a vested non-forfeitable right to such shares. Dividends are not paid currently on unvested Restricted Shares, but are paid cumulatively, from the issuance date through the applicable vesting date of such Restricted Shares vesting. Trustee fee expense of $0.1 million for the year ended December 31, 2010 has been recognized in the accompanying consolidated financial statements related to this issuance.

During 2009, the Company adopted the Long Term Investment Alignment Program (the Program) pursuant to which the Company may award units primarily to senior executives which would entitle them to receive up to 25% of any future Fund III Promote when and if such Promote is ultimately realized. As of December 31, 2010, the Company has awarded units representing 61% of the Program, which were determined to have no value at issuance or as of December 31, 2010. In accordance with ASC Topic 718 Compensation - Stock Compensation, compensation relating to these awards will be recorded based on the change in the estimated fair value at each reporting period.

As of December 31, 2010, the Company had 101,283 options outstanding to officers and employees all of which have vested. In addition, 58,000 options have been issued, of which all have vested, to non-employee Trustees. During 2010, 7,000 options were exercised by the Trustees at various exercise prices. As of December 31, 2010, there are 51,000 options outstanding to Trustees of the Company. These options are for ten-year terms from the grant date and vested in three equal annual installments, which began on their respective grant dates.

A summary of option activity under all option arrangements as of December 31, 2009 and 2010, and changes during the years then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (dollars in thousands)
Outstanding at January 1, 2009	421,244	$ 10.65	3.7	$ 1,527
Granted				
Exercised	(258,900)	5.99		2,816
Forfeited or Expired	(3,061)	19.67		
Outstanding and exercisable at December 31, 2009	159,283	18.04	5.5	
Granted				
Exercised	(7,000)	14.46		26
Forfeited or Expired				
Outstanding and exercisable at December 31, 2010	152,283	$ 18.20	4.5	$ 6

The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008 was $0.03 million, $2.8 million and $0.8 million, respectively.

A summary of the status of the Company s unvested Restricted Shares and LTIP Units as of December 31, 2009 and 2010 and changes during the years ended December 31, 2009 and 2010, is presented below:

Unvested Shares and LTIP Units	Restricted Shares	Weighted Grant-Date Fair Value	LTIP Units	Weighted Grant-Date Fair Value

Unvested at January 1, 2009	487,434	$ 21.37	181,350	$ 24.55
Granted	54,960	10.95	208,796	10.30
Vested	(249,825)	20.07	(25,472)	24.60
Forfeited	(20,057)	17.35	(1,841)	24.61
Unvested at December 31, 2009	272,512	20.76	362,833	16.35
Granted	24,473	17.32	266,928	16.73
Vested	(143,042)	21.26	(67,022)	15.69
Forfeited	(513)	13.74		
Unvested at December 31, 2010	153,430	$ 19.75	562,739	$ 16.61

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Employee Share Purchase and Deferred Share Plan

As of December 31, 2010, there was $7.4 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under share incentive plans. That cost is expected to be recognized over a weighted-average period of 1.7 years. The total fair value of Restricted Shares that vested during the years ended December 31, 2010, 2009 and 2008 was $3.0 million, $5.0 million and $2.7 million, respectively.

The Acadia Realty Trust Employee Share Purchase Plan (the Purchase Plan), allows eligible employees of the Company to purchase Common Shares through payroll deductions. The Purchase Plan provides for employees to purchase Common Shares on a quarterly basis at a 15% discount to the closing price of the Company s Common Shares on either the first day or the last day of the quarter, whichever is lower. A participant may not purchase more the $25,000 in Common Shares per year. Compensation expense will be recognized by the Company to the extent of the above discount to the closing price of the Common Shares with respect to the applicable quarter. During 2010, 2009 and 2008, 6,184, 8,744 and 7,499 Common Shares, respectively, were purchased by employees under the Purchase Plan. Associated compensation expense of $0.02 million was recorded in 2010 and 2009 and $0.03 million was recorded in 2008.

During August of 2004, the Company adopted a Deferral and Distribution Election pursuant to the 1999 Share Incentive Plan and 2003 Share Incentive Plan, whereby the participants elected to defer receipt of 190,487 Common Shares (Share Units) that otherwise would have been issued upon the exercise of certain options. In January 2009, these Share Units were converted to 190,487 Common Shares and issued to the recipients and 83,433 of these Common Shares were cancelled to pay for the participants income taxes.

During May of 2006, the Company adopted a Trustee Deferral and Distribution Election (Trustee Deferral Plan) whereby the participating Trustees have deferred compensation of $0.06 million, $0.05 million and $0.4 million for 2010, 2009 and 2008, respectively. During 2009, certain trustees elected to receive 14,722 Common Shares, which were previously deferred, from the Trustee Deferral Plan.

17. Employee 401(k) Plan

The Company maintains a 401(k) plan for employees under which the Company currently matches 50% of a plan participant s contribution up to 6% of the employee s annual salary. A plan participant may contribute up to a maximum of 15% of their compensation but not in excess of $16,500 for the year ended December 31, 2010. The Company contributed $0.2 million, $0.2 million and $0.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

18. Dividends and Distributions Payable

On November 9, 2010, the Board of Trustees declared a cash dividend for the quarter ended December 31, 2010, of $0.18 per Common Share, which was paid on February 1, 2011 to holders of record as of December 31, 2010.

19. Federal Income Taxes

The Company has elected to qualify as a REIT in accordance with Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code), and intends at all times to qualify as a REIT under the Code. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual REIT taxable income to its shareholders. As a REIT, the Company generally will not be subject to corporate Federal income tax, provided that distributions to its shareholders equal at least the amount of its REIT taxable income as defined under the Code. As the Company distributed sufficient taxable income for the years ended December 31, 2010, 2009 and 2008, no U.S. Federal income or excise taxes were incurred. If the Company fails to qualify as a REIT in any taxable year, it will be subject to Federal income taxes at the regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for the four subsequent taxable years. Even though the Company qualifies for taxation as a REIT, the Company is subject to certain state and local taxes on its income and property and Federal income and excise taxes on any undistributed taxable income. In addition, taxable income from non-REIT activities managed through the Company s Taxable REIT Subsidiary (TRS) is subject to Federal, state and local income taxes.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Federal Income Taxes, continued

Characterization of Distributions:

The Company has determined that the cash distributed to the shareholders is characterized as follows for Federal income tax purposes:

	For the years ended December 31,		
	2010	2009	2008
Ordinary income	100%	95%	54%
Capital gain		5%	46%
	100%	100%	100%

Taxable REIT Subsidiaries

Income taxes have been provided for using the liability method as required by ASC Topic 740 Income Taxes. The Company s TRS income and provision for income taxes for the years ended December 31, 2010, 2009 and 2008 are summarized as follows:

(dollars in thousands)	2010	2009	2008
TRS income before income taxes	$ 5,716	$ 2,671	$ 5,870
Provision for income taxes:			
Federal	2,164	1,025	2,441
State and local	543	292	763
TRS net income before noncontrolling interest	3,009	1,354	2,666
Noncontrolling interest	545		
TRS net income	$ 2,464	$ 1,354	$ 2,666

The income tax provision differs from the amount computed by applying the statutory federal income tax rate to income before income taxes as follows (not adjusted for temporary book/tax differences):

(dollars in thousands)	2010	2009	2008
Federal provision at statutory tax rate	$ 1,943	$ 908	$ 1,996
State and local taxes, net of federal benefit	358	193	504
Tax effect of:			
Permanent differences, net	406	138	514
Other		78	190
REIT state and local income and franchise taxes	183	224	158
Total provision for income taxes	$ 2,890	$ 1,541	$ 3,362

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Earnings Per Common Share

Basic earnings per Common Share is computed using net income attributable to common shareholders and the weighted average Common Shares outstanding. Diluted earnings per Common Share reflect the conversion of obligations and the assumed exercises of securities including the effects of awards issuable under the Company s Share Incentive Plans. In accordance with GAAP, all Common Shares used to calculate earnings per Common Share have been adjusted to reflect a special dividend paid on January 30, 2009, which resulted in the issuance of approximately 1.3 million additional Common Shares. The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated:

	Years ended December 31,		
(dollars in thousands, except per share amounts)	**2010**	**2009**	**2008**
Numerator:			
Income from continuing operations attributable to Common Shareholders	$ 29,980	$ 28,551	$ 17,079
Effect of dilutive securities:			
Preferred OP Unit distributions	18	19	
Numerator for diluted earnings per Common Share	29,998	28,570	17,079
Denominator:			
Weighted average shares for basic earnings per share	40,136	38,005	33,813
Effect of dilutive securities:			
Employee share options	245	212	454
Convertible Preferred OP Units	25	25	
Dilutive potential Common Shares	270	237	454
Denominator for diluted earnings per share	40,406	38,242	34,267
Basic earnings per Common Share from continuing operations attributable to Common Shareholders	$ 0.75	$ 0.75	$ 0.51
Diluted earnings per Common Share from continuing operations attributable to Common Shareholders	$ 0.74	$ 0.75	$ 0.50

The weighted average shares used in the computation of dilutive earnings per share include unvested restricted Common Shares (Restricted Shares) and restricted OP Units (LTIP Units) (Note 15) that are entitled to receive dividend equivalent payments. The effect of the conversion of 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 noncontrolling interest in subsidiaries 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 conversion of the convertible notes payable (Note 9) is not reflected in the table above as such conversion, based on the market price of the Common Shares, would be settled with cash.

The effect of the assumed conversion of 188 Series A Preferred OP Units into 25,067 Series A Preferred OP Units for the year ended December 31, 2010 and December 31, 2009 would be dilutive and they are included in the table. The effect of the assumed conversion of 188 Series A Preferred OP Units into 25,067 Common Shares for the year ended December 31, 2008 would be anti-dilutive and they are not included in the table.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Summary of Quarterly Financial Information (unaudited)

The quarterly results of operations of the Company for the years ended December 31, 2010 and 2009 are as follows:

(dollars in thousands, except per share amounts)	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Revenue	$ 37,461	$ 36,698	$ 39,011	$ 38,788
Income from continuing operations attributable to Common Shareholders	$ 5,118	$ 12,786	$ 5,105	$ 6,971
Income from discontinued operations attributable to Common Shareholders	$ 12	$ 12	$ 12	$ 41
Net income attributable to Common Shareholders	$ 5,130	$ 12,798	$ 5,117	$ 7,012
Net income attributable to Common Shareholders per Common Share basic:				
Income from continuing operations	$ 0.13	$ 0.32	$ 0.13	$ 0.17
Income from discontinued operations				
Net income per share	$ 0.13	$ 0.32	$ 0.13	$ 0.17
Net income attributable to Common Shareholders per Common Share diluted:				
Income from continuing operations	$ 0.13	$ 0.32	$ 0.13	$ 0.17
Income from discontinued operations				
Net income per share	$ 0.13	$ 0.32	$ 0.13	$ 0.17
Cash dividends declared per Common Share	$ 0.18	$ 0.18	$ 0.18	$ 0.18
Weighted average Common Shares outstanding:				
Basic	39,980,646	40,134,706	40,169,141	40,257,378
Diluted	40,149,931	40,371,812	40,430,998	40,594,009

(dollars in thousands, except per share amounts)	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Revenue	$ 34,650	$ 34,881	$ 38,645	$ 37,527
Income from continuing operations attributable to Common Shareholders	$ 9,341	$ 7,104	$ 7,264	$ 4,842
Income from discontinued operations attributable to Common Shareholders	$ 958	$ 31	$ 43	$ 1,550
Net income attributable to Common Shareholders	$ 10,299	$ 7,135	$ 7,307	$ 6,392
Net income attributable to Common Shareholders per Common Share basic:				
Income from continuing operations	$ 0.27	$ 0.18	$ 0.18	$ 0.12
Income from discontinued operations	$ 0.03			$ 0.04
Net income per share	$ 0.30	$ 0.18	$ 0.18	$ 0.16

Net income attributable to Common Shareholders per Common Share diluted:				
Income from continuing operations	$ 0.27	$ 0.18	$ 0.18	$ 0.12
Income from discontinued operations	$ 0.03			$ 0.04
Net income per share	$ 0.30	$ 0.18	$ 0.18	$ 0.16
Cash dividends declared per Common Share	$ 0.21	$ 0.18	$ 0.18	$ 0.18
Weighted average Common Shares outstanding:				
Basic	33,902,958	38,592,289	39,685,623	39,756,060
Diluted	34,050,446	38,804,108	39,967,714	40,037,555

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. Commitments and Contingencies

Under various Federal, state and local laws, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for the cost of removal or remediation of certain hazardous or toxic substances disposed, stored, generated, released, manufactured or discharged from, on, at, under, or in a property. As such, the Company may be potentially liable for costs associated with any potential environmental remediation at any of its formerly or currently owned properties.

The Company conducts Phase I environmental reviews with respect to properties it acquires. These reviews include an investigation for the presence of asbestos, underground storage tanks and polychlorinated biphenyls (PCBs). Although such reviews are intended to evaluate the environmental condition of the subject property as well as surrounding properties, there can be no assurance that the review conducted by the Company will be adequate to identify environmental or other problems that may exist. Where a Phase II assessment is so recommended, a Phase II assessment is conducted to further determine the extent of possible environmental contamination. In all instances where a Phase I or II assessment has resulted in specific recommendations for remedial actions, the Company has either taken or scheduled the recommended remedial action. To mitigate unknown risks, the Company has obtained environmental insurance for most of its properties, which covers only unknown environmental risks.

The Company believes that it is in compliance in all material respects with all Federal, state and local ordinances and regulations regarding hazardous or toxic substances. Management is not aware of any environmental liability that it believes would have a material adverse impact on the Company s financial position or results of operations. Management is unaware of any instances in which the Company would incur significant environmental costs if any or all properties were sold, disposed of or abandoned. However, there can be no assurance that any such non-compliance, liability, claim or expenditure will not arise in the future.

The Company is involved in various matters of litigation arising in the normal course of business. While the Company is unable to predict with certainty the amounts involved, the Company s management and counsel are of the opinion that, when such litigation is resolved, the Company s resulting liability, if any, will not have a significant effect on the Company s consolidated financial position, results of operations, or liquidity.

In September 2008, the Company, certain of its subsidiaries, and other unrelated entities were named as defendants in an adversary proceeding brought by Mervyn s LLC (Mervyns) in the United States Bankruptcy Court for the District of Delaware. This lawsuit involves five claims alleging fraudulent transfers. The first claim is that, at the time of the sale of Mervyns by Target Corporation to a consortium of investors including Acadia, a transfer of assets was made in an effort to defraud creditors. The Company believes this aspect of the case is without merit. There are four other claims relating to transfers of assets of Mervyns at various times. The Company believes there are substantial defenses to these claims. The matter is in the early stages of discovery and the Company believes the lawsuit will not have a material adverse effect on its results of operations, consolidated financial condition, or liquidity.

During August 2009, the Company terminated the employment of a former Senior Vice President (the Former Employee) for engaging in conduct that fell within the definition of cause in his severance agreement with the Company. Had the Former Employee not been terminated for cause, he would have been eligible to receive approximately $0.9 million under the severance agreement. Because the Company terminated him for cause, it did not pay the Former Employee any severance benefits under the agreement. The Former Employee has brought a lawsuit against the Company in New York State Supreme Court, alleging breach of the severance agreement. The suit is in the pre-trial discovery stage. The Company believes it has meritorious defenses to the suit.

The Company has arranged for the provision of three separate letters of credit in connection with certain leases and investments. As of December 31, 2010, there were no outstanding balances under any of the letters of credit. If the letters of credit were fully drawn, the combined maximum amount of exposure would be $9.1 million.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. Subsequent Events

During January 2011, the Company completed the sale of a Fund II leasehold interest in the Neiman Marcus location at Oakbrook Center, located in Oak Brook, Illinois, for $8.2 million. The sale resulted in a gain of $3.9 million.

During January 2011, the Company paid off a $9.3 million loan secured by one of the Company s properties for $7.5 million, resulting in a $1.8 million gain.

During February 2011, the Company, through Fund III in a joint venture with an unaffiliated partner, acquired a three property portfolio (the Portfolio) for an aggregate purchase price of $51.9 million with $20.6 million of in-place mortgage financing assumed at closing. The Portfolio consists of three street-retail properties, aggregating 61,000 square feet, and is located in South Miami Beach, Florida.

During February 2011, the Company, through Fund III in a joint venture with an unaffiliated partner, acquired a 64,600 square foot single tenant retail property located in Silver Springs, Maryland, for approximately $9.8 million.

ACADIA REALTY TRUST
SCHEDULE III-REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2010

		Initial Cost to Company			Amount at which Carried at December 31, 2010				
Description	Encumbrances	Land	Buildings & Improvements	Costs Capitalized Subsequent to Acquisition	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Acquisition (a) Construction (c)
Shopping Centers									
Core Portfolio:									
Crescent Plaza Brockton, MA	$ 17,539	$ 1,147	$ 7,425	$ 1,219	$ 1,147	$ 8,644	$ 9,791	$ 5,849	1984(a)
New Loudon Center Latham, NY	14,119	505	4,161	11,375	505	15,536	16,041	11,266	1982(a)
Ledgewood Mall Ledgewood, NJ		619	5,434	33,199	619	38,633	39,252	34,042	1983(a)
Mark Plaza Edwardsville, PA			4,268	4,690		8,958	8,958	6,655	1968(c)
Plaza 422 Lebanon, PA		190	3,004	2,192	190	5,196	5,386	3,690	1972(c)
Route 6 Mall Honesdale, PA		1,664		11,166	1,664	11,166	12,830	6,020	1994(c)
Bartow Avenue Bronx, NY		1,691	5,803	560	1,691	6,363	8,054	1,459	2005(c)
Amboy Rd. Shopping Ctr. Staten Island, NY			11,909	1,519		13,428	13,428	1,843	2005(a)
Abington Towne Center[1] Abington, PA		799	3,197	2,007	799	5,204	6,003	2,304	1998(a)
Bloomfield Town Square[1] Bloomfield Hills, MI		3,207	13,774	12,189	3,207	25,963	29,170	8,805	1998(a)
Walnut Hill Plaza Woonsocket, RI	23,500	3,122	12,488	1,840	3,122	14,328	17,450	4,963	1998(a)
Elmwood Park Plaza Elmwood Park, NJ	34,197	3,248	12,992	14,715	3,798	27,157	30,955	10,946	1998(a)
Merrillville Plaza Hobart, IN	26,250	4,288	17,152	1,653	4,288	18,805	23,093	6,579	1998(a)
Marketplace of Absecon[1] Absecon, NJ		2,573	10,294	3,529	2,577	13,819	16,396	4,628	1998(a)
Clark Diversey Chicago, IL	4,625	10,061	2,773	83	10,061	2,856	12,917	360	2006(a)
Boonton Boonton, NJ	8,033	1,328	7,188		1,328	7,188	8,516	883	2006(a)
Chestnut Hill Philadelphia, PA	9,338	8,289	5,691	44	8,289	5,735	14,024	650	2006(a)
Third Avenue Bronx, NY		11,108	8,038	440	11,855	7,731	19,586		2006(a)
Hobson West Plaza[1] Naperville, IL		1,793	7,172	1,567	1,793	8,739	10,532	2,943	1998(a)
Village Commons Shopping Center Smithtown, NY	9,305	3,229	12,917	2,462	3,229	15,379	18,608	5,632	1998(a)
Town Line Plaza[1] Rocky Hill, CT		878	3,510	7,303	907	10,784	11,691	7,668	1998(a)

Branch Shopping Center Village of the Branch, NY	13,932	3,156	12,545	865	3,156	13,410	16,566	4,454	1998(a)
The Methuen Shopping Center[1] Methuen, MA		956	3,826	594	961	4,415	5,376	1,510	1998(a)
Gateway Shopping Center Burlington, VT	20,500	1,273	5,091	11,536	1,273	16,627	17,900	4,947	1999(a)
Mad River Station Dayton, OH		2,350	9,404	1,046	2,350	10,450	12,800	3,215	1999(a)
Pacesetter Park Shopping Center Ramapo, NY	12,132	1,475	5,899	1,121	1,475	7,020	8,495	2,544	1999(a)
239 Greenwich Greenwich, CT	26,000	1,817	15,846	549	1,817	16,395	18,212	4,852	1998(a)
West Shore Expressway Staten Island, NY		3,380	13,554	10	3,380	13,564	16,944	1,429	2007(a)
West 54th Street Manhattan, NY		16,699	18,704	28	16,699	18,732	35,431	1,751	2007(a)
Acadia 5-7 East 17th Street Manhattan, NY		3,048	7,281		3,048	7,281	10,329	540	2008(a)

ACADIA REALTY TRUST
SCHEDULE III-REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2010

		Initial Cost to Company			Amount at which Carried at December 31, 2010				
Description	**Encumbrances**	**Land**	**Buildings & Improvements**	**Costs Capitalized Subsequent to Acquisition**	**Land**	**Buildings & Improvements**	**Total**	**Accumulated Depreciation**	**Date of Acquisition (a) Construction (c)**
Fund I:									
Tarrytown Centre Westchester, NY	$ 8,427	$ 2,323	$ 7,396	$ 359	$ 2,323	$ 7,755	$ 10,078	$ 1,379	2004(a)
Granville Center Columbus, OH		2,186	8,744	71	2,186	8,815	11,001	1,864	2002(a)
Kroger/Safeway Various			34,586			34,586	34,586	31,926	2003(a)
Fund II:									
Liberty Avenue New York, NY	10,000		12,627	540		13,167	13,167	1,372	2005(a)
Pelham Manor Westchester, NY	31,554			61,648		61,648	61,648	3,639	2004(a)
400 E. Fordham Road Bronx, NY	85,910	11,144	18,010	93,356	16,254	106,256	122,510	6,327	2004(a)
4650 Broadway/Sherman Ave New York, NY		25,267		7,744	25,267	7,744	33,011		2005(a)
216th Street New York, NY	25,500	7,261		19,146	7,261	19,146	26,407	1,882	2005(a)
161st Street Bronx, NY	28,900	16,679	28,410	10,574	16,679	38,984	55,663	3,914	2005(a)
Atlantic Avenue Brooklyn, NY	11,540	5,322		15,176	5,322	15,176	20,498	553	2007(a)
Canarsie Plaza Brooklyn, NY	40,243	32,543		80,036	32,543	80,036	112,579	287	2007(a)
CityPoint Brooklyn, NY	40,650		2,564	112,047		114,611	114,611		
ASOF II, LLC	40,000								
Fund III:									
125 Main Street Assoc. Westport, CT		12,993	4,316	2,598	12,993	6,914	19,907	91	2007(a)
Sheepshead Bay Brooklyn, NY		20,391		4,257	20,391	4,257	24,648		2007(a)
Suffern Self Storage Suffern, NY		4,561	7,484	11	4,561	7,495	12,056	597	2008(a)
Linden Self Storage[2] Linden, NJ		3,515	6,139	15	3,515	6,154	9,669	528	2008(a)
Webster Self Storage[2] Bronx, NY		959	5,506	27	959	5,533	6,492	431	2008(a)
Jersey City Self Storage[2] Jersey City, NJ		2,377	9,654	12	2,377	9,666	12,043	779	2008(a)
Bronx Self Storage[2] Bronx, NY		10,835	5,936	22	10,835	5,958	16,793	502	2008(a)
Lawrence Self Storage[2] Lawrence, NY		6,977	12,688	6	6,977	12,694	19,671	938	2008(a)
Starr Avenue Self Storage Queens, NY		7,597	22,391	189	7,597	22,580	30,177	1,768	2008(a)
New Rochelle Self Storage Westchester, NY		1,977	4,769	339	1,977	5,108	7,085	391	2008(a)

Yonkers Self Storage Westchester, NY		3,121	17,457	93	3,121	17,550	20,671	1,295	2008(a)
Bruckner Blvd. Self Storage Bronx, NY		6,244	10,551	38	6,244	10,589	16,833	806	2008(a)
Ridgewood Self Storage Queens, NY		8,000		13,859	8,000	13,859	21,859	589	2008(c)
Document Storage New York City, NY				1,080		1,080	1,080	134	2008(a)
Cortlandt Towne Center Cortlandt, NY	50,000	7,293		64,878	7,293	64,878	72,171	5,501	2009(a)
ASOF III, LLC	171,450								
Undeveloped land		251			251		251		
Properties under development						4,400	4,400		
Total	$ 806,144	$ 293,709	$ 470,568	$ 617,622	$ 300,154	$ 1,086,145	$ 1,386,299	$ 219,920	

Notes:

(1) These properties serve as collateral for the financing with Bank of America, N.A. in the amount of $1,000

(2) These properties serve as collateral for the financing with GEMSA, in the amount of $41,500

ACADIA REALTY TRUST
SCHEDULE III-REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2010

1. Depreciation on buildings and improvements reflected in the statements of income is calculated over the estimated useful life of the assets as follows:

Buildings: 30 to 40 years
Improvements: Shorter of lease term or useful life

2. The aggregate gross cost of property included above for Federal income tax purposes was $1,292.0 million as of December 31, 2010

3. (a) Reconciliation of Real Estate Properties:

The following table reconciles the real estate properties from January 1, 2008 to December 31, 2010:

	For the years ended December 31,		
(dollars in thousands)	**2010**	**2009**	**2008**
Balance at beginning of year	$ 1,200,483	$ 1,085,072	$ 811,893
Other improvements	185,816	46,723	103,476
Property Acquired		68,688	169,703
Balance at end of year	$ 1,386,299	$ 1,200,483	$ 1,085,072

3. (b) Reconciliation of Accumulated Depreciation:

The following table reconciles accumulated depreciation from January 1, 2008 to December 31, 2010:

	For the years ended December 31,		
(dollars in thousands)	**2010**	**2009**	**2008**
Balance at beginning of year	$ 191,307	$ 163,214	$ 141,044
Depreciation related to real estate	28,613	28,093	22,170
Balance at end of year	$ 219,920	$ 191,307	$ 163,214

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