

PARAMOUNT GOLD & SILVER CORP.  
Form 424B3  
October 09, 2012

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Filed pursuant to Rule 424(b)(3)

Registration No. 333-180812

PROSPECTUS

PARAMOUNT GOLD AND SILVER CORP.

10,417,776 Shares

Common Stock

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The selling stockholders named in this prospectus are offering shares of our common stock. We are not selling any shares of our common stock in this offering. We will not receive any proceeds from the sale of common stock by the selling stockholders. The distribution of the shares by the selling stockholders is not subject to any underwriting agreement. We will bear all expenses of registration incurred in connection with this offering, but all selling and other expenses incurred by the selling stockholders will be borne by them.

Our common stock is listed for trading on the NYSE MKT LLC ("NYSE MKT") and the Toronto Stock Exchange ("TSX") under the symbol "PZG", and quoted on the Frankfurt Stock Exchange ("FSE") under the symbol "P6G." On October 5, 2012 the last reported sale price of our common stock on the NYSE MKT and TSX was US\$2.62 and CDN\$2.58 per share, respectively, and on the FSE was EUR€2.00 per share.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 3 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is October 9, 2012

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## ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We and the selling stockholders have not authorized any other person to provide you with information different from that contained in this prospectus. The distribution or possession of this prospectus in or from certain jurisdictions may be restricted by law. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted or where the person making the offer or sale is not qualified to do so or to any person to whom it is not permitted to make such offer or sale. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

In this prospectus, “Paramount,” “Company,” “we,” “us,” and “our” refer to Paramount Gold and Silver Corp., including unlisted subsidiaries, in the context otherwise requires, its subsidiaries. To understand the offering fully and for a more complete description of the offering you should read this entire document carefully, including particularly the “Risk Factors” section beginning on page 3.



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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because this is a summary, it may not contain all of the information that may be important to you. Therefore, you should read this entire prospectus carefully before making a decision to invest in our common stock securities, including the risks discussed under the “Risk Factors” section and our financial statements and related notes.

The Company

Paramount is a U.S. based exploration stage mining company with projects in Nevada (Sleeper) and northern Mexico (San Miguel). Our business strategy is to acquire and develop known precious metals deposits in large-scale geological environments in North America. This helps eliminate discovery risks and significantly increases the efficiency and effectiveness of exploration programs. Our projects are located near successful operating mines. This greatly reduces the related costs for infrastructure requirements at the exploration stage and eventually for mine construction and operations.

Recent Equity Offering

On March 30, 2012, the Company closed a private placement offering (the “March 2012 Offering”) pursuant to which the Company sold to various institutional and accredited investors and non-U.S. persons 10,417,776 shares of its common stock (the “Shares”) for gross proceeds of \$21,356,441, at an offering price of \$2.05 per Share. Net proceeds from the March 2012 Offering will be used primarily to support the Company's current exploration and development plans together with the Company's ongoing general corporate and working capital requirements.

The subscription agreements between the Company and each of the investors of the March 2012 Offering provide that we shall use our commercially reasonable efforts to file a registration statement with the U.S. Securities and Exchange Commission to register the resale of the Shares. The Company has agreed to pay a finder's fee for certain of the subscription agreements.

The sale of the Shares was exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) thereof and Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering.

Corporate Information

We are a Delaware company incorporated on March 29, 2005. Our head office is located at 665 Anderson Street, Winnemucca, Nevada. We have an exploration field office in Temoris, Chihuahua, Mexico. Our telephone number at our head office is (775) 625-3600 and our corporate website is [www.paramountgold.com](http://www.paramountgold.com). The information on, or that can be accessed through, our website is not part of this prospectus.

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The Offering

Shares of common stock offered by the selling stockholders 10,417,776 shares of common stock, \$0.001 par value per share, offered by the selling stockholders.

Offering price Determined at the time of sale by the selling stockholders

Common stock outstanding 147,546,184 (as of September 20, 2012)

Risk factors An investment in the shares involves a high degree of risk. Investors should carefully consider the information set forth under “RISK FACTORS” beginning on page 3.

Use of proceeds We will not receive any proceeds from the sale of our common stock offered through this prospectus by the selling stockholders.

NYSE MKT symbol “PZG”

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RISK FACTORS

Investment in any securities offered pursuant to this prospectus involves risks. Before making an investment decision, you should carefully consider the specific risks described under the caption “Risk Factors” in any of our filings with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, which we have incorporated herein by reference. Each of the risks described in these headings could adversely affect our business, financial condition, results of operations and prospects, and could result in a complete loss of your investment. For more information, see “Where You Can Find More Information.”

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This prospectus contains such "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this prospectus, and they may also be made a part of this prospectus by reference to other documents filed with the Securities and Exchange Commission, which is known as "incorporation by reference."

Words such as "may," "anticipate," "estimate," "expects," "projects," "intends," "plans," "believes" and words and terms of substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

Forward-looking statements might include one or more of the following:

- anticipated results of financing activities;
- anticipated joint ventures or exploratory costs;
- anticipated prices for gold and silver;
- anticipated drilling results;
- descriptions of plans or objectives of management for future operations;
- forecasts of future economic performance; and
- descriptions or assumptions underlying or relating to any of the above items.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this prospectus or in any document incorporated by reference might not occur. Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this prospectus or the date of the document incorporated by reference in this prospectus. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to the Registrant or to any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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## USE OF PROCEEDS

We will not receive any proceeds from the sale of our common stock offered through this prospectus by the selling stockholders. All proceeds from the sale of our common stock sold under this prospectus will go solely to the selling stockholders.

## CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and our capitalization as of June 30, 2012. The information in this table should be read in conjunction with “Selected Consolidated Financial Data”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and the consolidated financial statements and the related notes included elsewhere in this prospectus.

	June 30, 2012 (In thousands, except share and per share amounts)
Cash and cash equivalents	\$ 12,500
Reclamation and environmental obligation	\$ 1,198
Stockholders’ equity:	
Common stock, \$0.001 par value; 200,000,000 shares authorized and 147,412,603 shares outstanding	\$ 148
Additional paid-in-capital	\$ 151,565
Contributed surplus	\$ 12,892
Deficit accumulated during the exploration stage	\$ (101,729 )
Accumulated other comprehensive income	\$ (65 )
Total equity (deficit)	\$ 62,811
Total capitalization	\$ 76,120



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## SELECTED FINANCIAL DATA

The following consolidated financial data has been derived from and should be read in conjunction with our audited financial statements for the years ended June 30, 2008 through 2012. Our audited financial statements for the years ended June 30, 2008 through 2012 are included in the Company's annual reports for the years ended June 30, 2008 through 2012. These reports can be found on the Securities and Exchange Commission's website located at [www.sec.gov](http://www.sec.gov).

	Year Ended June 30, 2012 (Audited)	Year Ended June 30, 2011 (Audited)	Year Ended June 30, 2010 (Audited)	Year Ended June 30, 2009 (Audited)	Year Ended June 30, 2008 (Audited)
Statement of Operations data					
Revenue	\$ 115,790	\$ 299,703	\$ 35,853	\$ 249,082	\$ 457,562
Expenses	\$ 18,208,539	\$ 12,159,746	\$ 10,248,026	\$ 7,490,261	\$ 18,867,523
Net loss	\$ 12,091,608	\$ 28,450,536	\$ 5,351,958	\$ 7,241,179	\$ 18,409,961
Basic and diluted loss per share	\$ 0.09	\$ 0.21	\$ 0.06	\$ 0.11	\$ 0.38
Diluted weighted average number of shares	139,466,595	130,677,585	98,617,938	65,433,659	47,703,566
Balance sheet data					
Cash and short term investments	\$ 20,000,708	\$ 14,689,241	\$ 21,380,505	\$ 7,040,999	\$ 3,199,848
Mineral properties	\$ 50,479,859	\$ 49,515,859	\$ 22,111,203	\$ 18,436,951	\$ 4,738,747
Total assets	\$ 76,119,889	\$ 70,296,027	\$ 46,328,181	\$ 27,457,795	\$ 11,932,328
Current liabilities	\$ 12,111,206	\$ 17,683,832	\$ 6,410,090	\$ 383,445	\$ 1,714,620
Total liabilities	\$ 13,309,385	\$ 18,827,724	\$ 6,410,090	\$ 383,445	\$ 1,714,620
Working capital	\$ 20,694,536	\$ 16,144,479	\$ 22,750,664	\$ 8,116,541	\$ 4,119,068
Accumulated deficit	\$ 101,729,241	\$ 89,637,633	\$ 61,187,098	\$ 43,197,264	\$ 35,956,085

## DETERMINATION OF OFFERING PRICE

The selling stockholders may sell their shares at prevailing market prices on the NYSE MKT, TSX or FSE or at privately negotiated prices. Consequently, we cannot determine what the actual value of our common stock will be either now or at the time of sale, if any. We will not receive proceeds from the sale of common stock from the selling stockholders.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We are an exploratory stage mining company that currently has mining concessions in Mexico and mineral claims in Nevada, USA. We have no proven reserves at our San Miguel project in Mexico or at our Sleeper Gold Project in Nevada but are currently exploring both projects. The following discussion updates our plan of operations for the foreseeable future. It also analyzes our financial condition and summarizes the results of our operations for the years ended June 30, 2012, 2011 and 2010 and compares each year's results to the results of the prior year.

## Plan of Operation – Exploration:

Our plan for the next twelve months at our San Miguel Project is to continue with our drill program by testing new areas or expanding resources on known zones such La Bavisa, Don Ese Sur and el Ojito, which are part of the

Temoris group of concessions. Additionally, we plan to conduct geological reconnaissance to identify new targets areas and drill them on geological merit. The Company expects to complete a Preliminary Economic Assessment on San Miguel project by calendar year end 2012. This will be based on our updated material estimate prepared by Mine Development Associates, and metallurgical testing by McClelland Laboratories, both of Reno Nevada USA. Our budget for the program is approximately \$7.8 million.

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Our plan for the next twelve months in Nevada is to primarily focus on our Sleeper Gold Project. Our budget for this period is approximately \$6.2 million. We will assess the results and recommendations of the PEA prepared by SEWC and determine the next steps for the Sleeper Gold Project. We will continue drilling to follow up on open zones with gold anomalies or hidden geophysical targets. Additionally, a drill program is planned to test several targets within the recently staked Mimi claim block south of the original Sleeper Gold mine claim block.

Our work at both the San Miguel Project and Sleeper Gold Project is consistent with Paramount's strategy of expanding and upgrading known, large-scale precious metal occurrences in established mining camps, defining their economic potential and then partnering them with nearby producers.

Comparison of Operating Results for the year ended June 30, 2012 as compared to June 30, 2011

## Liquidity and Capital Resources

At June 30, 2012, we had a cash and short-term investment balance of \$20,000,708 compared to \$14,689,241 as at June 30, 2011. The cash used to fund our exploration programs and corporate overhead was offset by the financing we completed in March 2012.

At June 30, 2012, we had a net working capital, excluding non-cash warrant liability, of \$20,694,536. We anticipate our cash expenditures to fund exploration programs and general corporate expenses to be approximately \$1.3 million per month for the next 6 months. We also anticipate making \$1.6 million in option payments for previously purchased mineral concessions in the next 3 months. Anticipated cash outlays will be funded by our available cash reserves and future issuances of shares of our common stock.

	6,000					
<i>Executive Officer</i>						
2002(5)	312,000	300,000(5)	(2)	(5)		6,000
Joel Braun						
2004	200,000	90,000	(2)	211,117	7,152	2,769
<i>Senior Vice President</i>						
2003	200,000	(2)	220,161			3,000
<i>Chief Investment Officer</i>						
2002(5)	187,200	125,000(5)	(2)	(5)		5,616
Robert Masters						
2004	190,000	(2)	170,740	3,655		2,631
<i>Senior Vice President</i>						
2003	190,000	(2)	137,445			4,385
<i>General Counsel</i>						
2002(5)	187,200	80,000(5)	(2)	(5)		6,000
Michael Nelsen						
2004	190,400	50,000	(2)	104,255	3,179	4,394
<i>Senior Vice President</i>						
2003	150,123	56,250	(2)	56,250		1,098
<i>Chief Financial Officer (6)</i>						
2002						
Joseph Hogan						
2004	200,000	45,000	(2)	93,841	3,179	5,615
<i>Senior Vice President</i>						
2003	200,000	(2)	127,260			3,900
<i>Director of Construction</i>						
2002(5)	197,600	80,000(5)	(2)	(5)		5,928

- (1) Represents contributions made by the Company to the account of the named executive officer under a 401(k) Plan.
- (2) Did not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus for the named individual.
- (3) Represents options granted on January 3, 2005 under the Company's 2003 Share Incentive Plan. See Share Option Grants, Exercises and Holdings Table below.
- (4) In prior years, executives had the option to elect to receive their bonus, or a portion thereof, in Common Shares under the Restricted Share Bonus Program (defined below). Mr. Bernstein made such elections for \$225,000 and \$150,000 of his 2003 and 2002 bonuses, respectively, for which Common Shares were granted in January 2004 and June 2003, respectively. Mr. Braun made such elections for \$65,000 and \$25,000 of his 2003 and 2002 bonuses, respectively, for which Common Shares were granted in January 2004 and June 2003, respectively. Mr. Masters made such elections for \$40,000 of each of his 2003 and 2002 bonuses, for which Common Shares were granted in January 2004 and June 2003. Mr. Hogan made such elections for \$40,000 and \$10,000 of his 2003 and 2002 bonuses, respectively, for which Common Shares were granted in January 2004 and June 2003, respectively. Under the restricted share bonus program, these executives were permitted to purchase Restricted Common Shares at a 20% discount to the average price for the preceding 20-days using amounts from their cash bonuses. Also under the 2003 Plan, restricted shares were awarded to these executives in addition to their 2004, 2003 and 2002 cash bonuses as follows: (i) Mr. Bernstein: 61,303, 36,390 shares and 40,000 shares, respectively, (ii) Mr. Braun: 12,873, 10,917 shares and 10,000 shares, respectively, (iii) Mr. Masters: 10,411, 6,874 shares and 5,333 shares, respectively, (iv) Mr. Nelsen: 6,357 shares in 2004 and (v) Mr. Hogan: 5,722, 6,065 shares and 4,000 shares, respectively. The 2004 restricted share awards were granted on January 3, 2005 under the Company's 2003 Share Incentive Plan.
- (5) Subsequent to the filing of the 2003 Proxy Statement, the Company adopted the 2003 Plan to provide for the granting of options, restricted shares and performance units to officers, employees and trustees of the Company because no Common Shares remained available for future grants under the 1999 Share Incentive Plan.
- (6) Mr. Nelsen was elected Sr. Vice President and Chief Financial Officer on March 7, 2003.

### Share Option Grants, Exercises and Holdings

The following options were granted on January 3, 2005 to the executive officers named on the Summary Compensation Table:

Name	Individual Grants (1)			Expiration Date	Potential Realizable Value at Assumed Annual Rate of Common Share Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted (#) (1)	% Of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)		5% (\$)	10%(\$)
Kenneth F. Bernstein	19,866	38.7	\$ 16.35	1-2-2015	\$ 205,890	\$ 520,225
Joel Braun	7,152	13.9	16.35	1-2-2015	74,123	187,287

Robert Masters	3,655	7.1	16.35	1-2-2015	37,880	95,712
Michael Nelsen	3,179	6.2	16.35	1-2-2015	32,947	83,247
Joseph Hogan	3,179	6.2	16.35	1-2-2015	32,947	83,247

(1) See Summary Compensation Table for title of the persons named above.

#### 2004 Fiscal Year-End Option Values

The following table sets forth the value of the options held by the executive officers named on the Summary Compensation Table:

Name (1)	Shares Acquired on Exercise (2)	Value Realized (\$)	Number of Unexercised Options/SARs at Fiscal Year-End (2)	Value of Unexercised in-the-Money Options/SARs at Fiscal Year-End (3)
			Exercisable/Unexercisable	Exercisable/Unexercisable
Kenneth F. Bernstein	400,000	\$3,180,000	350,000/	\$3,455,500/
Joel Braun	85,000	802,000	/	/
Robert Masters	65,000	606,800	/	/
Michael Nelsen			/	/
Joseph Hogan			25,000/	267,500/

(1) See Summary Compensation Table for title of the persons named above. The above table does not include options granted on January 3, 2005. See Share Option Grants, Exercises and Holdings Table.

(2) Represents options granted under the 1999 and 2003 Share Incentive Plans. One-third of the remaining options vested as of the grant date and one-third on each of the next two anniversaries thereafter.

(3) Based on a closing price of \$16.30 for the underlying Common Shares as of December 31, 2004.

#### Employment Contracts, Severance Agreements and Change in Control Arrangements.

The Company's only employment contracts are with Messrs. Bernstein and Nelsen. The Company also has severance agreements in place with its Senior Vice Presidents. These contracts and agreements are described below:

##### Employment Contracts

*Kenneth F. Bernstein*

In August of 1998, the Company entered into an employment agreement with Kenneth F. Bernstein, pursuant to which Mr. Bernstein served as President. Under the employment agreement, Mr. Bernstein is subject to an annual review and upward adjustment by the Compensation Committee. The employment agreement provides for a three-year term, is renewable for successive daily periods, and is subject to termination in accordance with the terms and conditions of such agreement. Effective as of January 1, 2001, Mr. Bernstein was appointed to the additional position of Chief Executive Officer of the Company. In connection with Mr. Bernstein's appointment to the position of Chief Executive Officer, the terms of his employment agreement were amended. Under the amended terms of his employment agreement, Mr. Bernstein's annual compensation was increased to \$300,000 per year. In January 2002, the Compensation Committee increased Mr. Bernstein's annual base compensation by 4% to \$312,000 for the calendar year ending December 31, 2002. Each year during the term of Mr. Bernstein's employment, the Compensation Committee considers Mr. Bernstein for an incentive bonus (to be determined by the Compensation Committee) and discretionary bonuses payable in cash, Common Shares issued under the Restricted Share Bonus Program ( Restricted Shares ) and options to purchase Common Shares, or any combination thereof, as the Board of Trustees and the Compensation Committee may approve. Restricted Shares generally carry all the rights of unrestricted Common Shares including dividend rights, but may not be transferred, assigned or pledged until the recipient has a vested, non-forfeitable right to these shares. Vesting, which is subject to the recipient's continued employment with the Company through the applicable vesting dates, ranges from three to four years from the date of grant. In addition, the vesting of certain Restricted Shares are contingent upon the Company's shareholder return exceeding certain thresholds in the year such vesting is scheduled to occur. For the calendar year ended December 31, 2002, the Compensation Committee awarded Mr. Bernstein a cash bonus of \$300,000 and a stock bonus of 40,000 Restricted Shares. Mr. Bernstein elected to receive \$150,000 of his cash bonus in Restricted Shares and the remainder in cash. Therefore, in June 2003, the Company issued to Mr. Bernstein 65,000 Restricted Shares with a value at the time of issuance of \$591,500 and Mr. Bernstein received \$150,000 in cash. For the calendar year ended December 31, 2003, the Compensation Committee awarded Mr. Bernstein a cash bonus of \$225,000 and a stock bonus of 36,390 Restricted Shares. Mr. Bernstein elected to receive his cash bonus in Restricted Shares. Therefore, in January 2004, the Company issued to Mr. Bernstein 59,134 Common Shares with a value at the time of issuance of \$744,497. For the calendar year ended December 31, 2004, the Compensation Committee awarded Mr. Bernstein a stock bonus of 61,303 Restricted Shares with a value as of the grant date of January 3, 2005 ( Grant Date ) of \$964,296. The Compensation Committee also awarded Mr. Bernstein 19,866 options to purchase Common Shares at an exercise price of \$16.35, which were granted on the Grant Date and vested 1/3 as of the Grant Date with the remaining options scheduled to vest equally on each of the next two anniversaries thereof. The options are subject to customary antidilution provisions. The terms of the options may be modified by the terms of any share option plan adopted by the Company.

The employment agreement also provides for an annual car allowance plus insurance costs for Mr. Bernstein to be maintained by the Company. Mr. Bernstein is also entitled to participate in all benefit plans, health insurance, disability, retirement and incentive compensation plans generally available to the Company's executives, and is subject to certain non-competition and confidentiality requirements.

The employment agreement provides for certain termination or severance payments to be made by the Company to Mr. Bernstein in the event of his termination of employment as the result of his death, disability, discharge with or without Cause (as defined therein), his resignation or a termination by Mr. Bernstein for good reason, including, a Change of Control (as defined therein) of the Company. If Mr. Bernstein's employment is terminated either because he is discharged without cause or due to a termination by Mr. Bernstein for good reason, including, a Change of Control, the Company will be required to make a lump sum payment equal to among other

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things, unpaid salary and bonus, and unpaid severance salary and bonus, each paid in accordance with the terms and conditions of such agreement.

*Michael Nelsen*

Mr. Nelsen was elected Sr. Vice President and Chief Financial Officer on March 7, 2003. The Company has entered into an employment agreement with Mr. Nelsen, pursuant to which Mr. Nelsen is to be compensated at the rate of \$200,000 per year. Under the employment agreement, Mr. Nelsen is subject to an annual review and upward adjustment by the Compensation Committee. He received a cash bonus of \$75,000 for 2003, which was prorated for a partial year in 2003 (\$56,250). In addition, Mr. Nelsen is entitled to participate in the Company's 2003 Share Incentive Plan. His compensation under this plan was \$75,000 for 2003, which was prorated for a partial year in 2003 (4,549 Restricted Shares with a value at the date of grant of \$56,250). For the calendar year ended December 31, 2004, the Compensation Committee awarded Mr. Nelsen a cash bonus of \$50,000 and a stock bonus of 6,357 Restricted Shares with a value at the date of grant, January 3, 2005 (the Grant Date ), of \$100,000. The Compensation Committee also awarded Mr. Nelsen 3,179 options to purchase Common Shares at a price of \$16.35, which were granted on the Grant Date and vested 1/3 as of the Grant Date with the remaining options scheduled to vest equally on each of the next two anniversaries thereof.

Mr. Nelsen's employment may be terminated at any time by him or the Company. The employment agreement provides for certain termination or severance payments to be made by the Company to Mr. Nelsen in the event of his termination of employment as the result of his death, disability, discharge with or without Cause (as defined therein), his resignation or a termination by Mr. Nelsen for good reason, including, a

Change of Control (as defined therein) of the Company. If Mr. Nelsen's employment is terminated either because he is discharged without Cause or due to a termination by Mr. Nelsen for good reason, including, a Change of Control, the Company will be required to make a lump sum payment equal to among other things, unpaid salary and bonus, and unpaid severance salary and bonus, each paid in accordance with the terms and conditions of his agreement.

### **Severance Arrangements**

The severance agreements with the Senior Vice Presidents provide for certain termination or severance payments to be made by the Company to the executive in the event of his termination of employment as the result of his death, disability, discharge with or without Cause (as defined therein), his resignation or a termination by the executive for good reason, including, a Change of Control (as defined therein) of the Company. If the executive's employment is terminated either because he is discharged without cause or due to a termination by the executive for good reason, including, a Change of Control, the Company will be required to make a lump sum payment equal to among other things, unpaid salary and bonus, and unpaid severance salary and bonus, each paid in accordance with the terms and conditions of such agreements.

### **Employee Benefit Plans**

The Company provides a variety of medical, dental, vision, life, disability and accidental death and dismemberment insurance policies that are generally available to all of its full-time employees. The Company also provides a contributory 401(k) savings plan to employees of the Company.

In 2003, the Company instituted the Acadia Realty Trust Employee Stock Purchase Plan (the Purchase Plan). The Purchase Plan allows eligible employees of the Company and its designated affiliates to purchase, through payroll deductions, Common Shares of beneficial interest in the Company. The Purchase Plan is designed to retain and motivate the employees of the Company and its designated affiliates by encouraging them to acquire ownership in the Company. The Company has reserved 100,000 Common Shares for issuance under the Purchase Plan. The Purchase Plan is intended to be an employee stock purchase plan within the meaning of Section 423 of the United States Internal Revenue Code, as amended, which allows an employee to defer recognition of taxes when purchasing common shares under such a purchase plan. During 2004 and 2003, 6,397 and 810 Common Shares, respectively, were purchased by employees under the Purchase Plan.

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## **REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION**

### **Overview**

The Compensation Committee recommends to the full Board of Trustees all compensation for senior executives, including the CEO. The Committee is made up of only non-employee trustees.

The Company's success depends on developing, motivating and retaining executives who have the skills and expertise to lead a fully integrated, self-managed and self-administered equity real estate investment trust. The executive compensation program is designed to help achieve these objectives. It is comprised of the following three main components:

- 1) Competitive base salaries
- 2) Short term rewards
- 3) Long term incentives

All three major components of the executive compensation program are described below in more detail.

### **Base Salaries**

In keeping with the long-term and highly technical nature of the Company's business, the Company takes a long-term approach to executive compensation. This career-oriented philosophy requires a competitive base salary. Each year, the Company evaluates the Company's salary structure based on competitive positioning (comparing Acadia's salary structure with salaries paid by other peer companies); the Company's own

business performance; and general economic factors. Specific weights are not given to these factors.

### Short Term Rewards

Short term incentive awards consist primarily of cash bonuses. The Committee grants cash bonuses to executives, including the CEO, to reward their contributions to the business during the past year.

In addition to the factors discussed under Base Salaries, the bonus an executive receives, including the CEO, also depends on the executive's individual performance and level of responsibility. Each year, the Committee assesses performance based on factors including business results, technical expertise, leadership and management skills.

In 2002, the Committee approved the payment of an aggregate of \$1,167,000 in cash bonuses of which \$147,000 was paid in 2002 and \$1,020,000 in 2003. In 2003, the Committee approved the payment of an aggregate of \$925,000 in cash bonuses of which \$177,000 was paid in 2003 and \$748,000 was paid in 2004. In 2004, the Committee approved the payment of an aggregate of \$846,000 in cash bonuses to all employees of which \$456,000 was paid in 2004 and \$390,000 was paid in 2005.

### Long Term Incentives

Long term incentive awards are intended to develop and retain strong management through share ownership and incentive awards that recognize future performance. The Company has historically used Common Shares issued under the Restricted Share Bonus Program ( Restricted Shares ) and options to purchase Common Shares ( Options ) as its primary long term incentive award. Restricted Share awards and Options were granted to executive officers, including the CEO, as well as other key employees in 2004.

The number of restricted shares granted to executive officers, including the CEO, is based on individual performance and level of responsibility. For this purpose, the Committee measures performance the same way as described above for short term awards. Restricted stock grants must be sufficient in size to provide a strong incentive for executives to work for long-term business interests and become significant owners of the business.

In 2004, the Committee authorized aggregate bonuses of 135,000 Restricted Shares and 51,296 Options to all employees.

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### CEO Compensation

Within the framework described above, the Committee determines the CEO's compensation by considering his contributions to the Company's business, the Company's success and career experience. The Committee does not think narrow quantitative measures or formulas are sufficient for determining Mr. Bernstein's compensation. The Committee does not give specific weights to the factors considered, but the primary factors are the CEO's contributions and business results.

Restricted Stock and Options were granted for 2004 to recognize Mr. Bernstein's outstanding leadership of the Company's business, continued strengthening of the Company's competitive position, recognition of the Company's achievements from the public markets, and its progress toward long-range strategic goals.

In determining the CEO's total compensation, the Committee considered Mr. Bernstein's level of responsibility, his leadership, and his overall contribution as CEO.

### Compensation Committee

Alan S. Forman, Chairman  
Lorrence T. Kellar

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**AUDIT COMMITTEE INFORMATION**

**Independent Registered Public Accounting Firm Compensation**

*Audit Fees*

The aggregate fees billed for professional services rendered by Ernst & Young LLP for the audit of the Company's financial statements as included in the Company's Form 10-K, fees for Sarbanes-Oxley Section 404 planning and testing relating to the Company's 2004 audit and reviews of the financial statements as included in the Company's Form 10Qs, were \$626,000 and \$215,000 for the years ended December 31, 2004 and 2003, respectively.

*Audit-Related Fees*

Additional fees billed for services rendered by Ernst & Young LLP during 2004 of \$198,000 were for the consents and comfort letters issued in connection with two Common Share offerings. Fees of \$13,000 during 2003 related to the Company's 2003 shelf registration statement.

*Tax Fees - Preparation and Compliance*

The aggregate fees billed for professional services rendered by Ernst & Young LLP for tax preparation and compliance were \$191,000 and \$150,000 for the years ended December 31, 2004 and 2003, respectively.

*Tax Fees - Other*

The aggregate fees billed for professional services rendered by Ernst & Young LLP for other tax advice and services were \$72,000 and \$94,000 for the years ended December 31, 2004 and 2003, respectively.

*All Other Fees*

There were no additional fees billed for services rendered by Ernst & Young LLP for services other than those specified in the captions entitled Audit Fees, Audit-Related Fees and Tax Fees as set forth above.

*Policy on Pre-Approval of Independent Auditor Services*

The Audit Committee is responsible for approving every engagement of Ernst & Young LLP to perform audit or non-audit services on behalf of the Company or any of its subsidiaries before Ernst & Young LLP is engaged to provide those services.

*The following Report of Audit Committee shall not be deemed incorporated by reference by any general statement incorporating this Proxy Statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts. The Board of Trustees has previously adopted an Audit Committee Charter that may be found in Appendix A to this proxy statement and on the Company's website at [www.acadiarealty.com](http://www.acadiarealty.com).*

**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee presently consists of the following members of the Company's Board of Trustees: Mr. Kellar, Ms. Hopgood and Ms. Luscombe, all of whom are independent as defined under the listing standards of the New York Stock Exchange.

The Audit Committee has reviewed and discussed the audited financial statements of the Company for the year ended December 31, 2004 with the Company's management. The Audit Committee has discussed with Ernst & Young LLP, the Company's auditors, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

The Audit Committee has also received the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees) and the Audit Committee has discussed the independence of Ernst &

Young LLP with that firm.

The Audit Committee has considered whether the other fees billed for professional services rendered by Ernst & Young LLP are compatible with maintaining the principal accountant's independence.

Based on the Audit Committee's review and discussions noted above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 for filing with the Securities and Exchange Commission.

#### Audit Committee

Lorrence T. Kellar, Chairman  
Suzanne M. Hopgood  
Wendy Luscombe

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#### SHARE PRICE PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return for the Common Shares for the period commencing December 31, 1999 through December 31, 2004 with the cumulative total return on the Standard & Poor's 500 Stock Index (the S&P 500), the Russell 2000 Index (Russell 2000), the Morgan Stanley REIT Index (the RMS) and the SNL Shopping Center REITs (the SNL) over the same period. Total return values for the S&P 500, the RMS, the SNL and the Common Shares were calculated based upon cumulative total return assuming the investment of \$100 in each of the S&P 500, the Index, the RMS and the Common Shares on December 31, 1999, and assuming reinvestment of such dividends. The shareholder return as set forth in the below is not necessarily indicative of future performance.

Comparison of 5 Year Cumulative Total Return among Acadia Realty Trust, the S&P 500, the Russell 2000, the RMS the SNL:

Index	Period Ending					
	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Acadia Realty Trust	100.00	132.36	161.14	202.09	361.27	492.52
S&P 500	100.00	91.20	80.42	62.64	80.62	89.47
Russell 2000	100.00	96.98	99.39	79.03	116.38	137.71
Morgan Stanley REITs Index	100.00	126.81	143.08	148.30	202.79	266.64
SNL Shopping Center REITS Index	100.00	120.21	154.52	178.60	253.21	344.02

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#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

##### RDC Transaction

On August 12, 1998, the Company completed a major reorganization (RDC Transaction) in which it acquired twelve shopping centers, five multi-family properties and a 49% interest in one shopping center along with certain third party management contracts and promissory notes

from real estate investment partnerships ( RDC Funds ) managed by affiliates of RD Capital, Inc. In connection with the RDC Transaction, the Company was, among other things, obligated to issue OP Units and cash valued at \$2.8 million upon the commencement of rental payments from a designated tenant at one of the acquired properties. In February 2003, Ross Dworman, the Company's former Chairman, received 34,841 of these OP Units through various affiliated entities.

### Future Equity Offerings

In connection with the RDC Transaction, the Company agreed that following the Closing, if the Board of Trustees determines, in the exercise of its duties, to engage in an offering of preferred stock convertible into Common Shares, then, upon commencement of any such offering, the Company would use commercially reasonable efforts to provide a right of first preference to those partners of the RDC Funds who are equity owners of the RDC Funds on the date of the Closing and who have made capital contributions to permit the RDC Funds to meet their obligations to make certain cash investment at the Closing, to purchase such convertible preferred stock, on terms and conditions which will be identical to the offer and sale of any preferred stock to investors other than such partners, provided that any such rights of first preference would be made only and if to the extent permitted by applicable federal, state and securities laws and that the terms of any such rights of first preference would only be in a manner determined fair and equitable to the Company.

### Other

The Company managed one property in which a shareholder of the Company had an ownership interest, for which the Company earned a management fee of 3% of tenant collections. Management fees earned by the Company under this contract aggregated \$142,000, \$212,000 and \$229,000 for the years ended 2004, 2003 and 2002, respectively. In addition, the Company also earned leasing commissions of \$157,000 related to this property for the year ended December 31, 2004. In connection with the sale of the property on July 12, 2004, the management contract was terminated and the Company earned a \$75,000 disposition fee.

The Company also earns certain management and service fees in connection with its investment in Funds I and II. Such fees earned by the Company aggregated \$3.5 million, \$1.7 million and \$1.1 million for the years ended December 31, 2004, 2003 and 2002, respectively.

The Company also earns fees in connection with its rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests in which Klaff Realty, LP and Klaff Realty Limited (collectively Klaff ) a common and preferred OP unit holder, has an interest, which was acquired during 2004. Net fees earned by the Company (after payment of submanagement fees of \$1.6 million) in connection with this portfolio were \$0.9 million for the year ended December 31, 2004.

On March 19, 2004, Mr. Dworman and certain entities controlled by Mr. Dworman converted 1,000,000 share options and 548,614 OP Units held by them in connection with Mr. Dworman's resignation from the Company's Board of Trustees and in connection with a secondary public offering. Included in the Common OP Units converted to Common Shares during 2003 were 2,300 Common OP Units converted by Mr. Dworman who then transferred them to a charitable foundation in accordance with a pre-existing arrangement.

In November 2004, the Company issued 1,890,000 Common Shares in an underwriting offering. In connection with this offering, Yale, and Mr. Bernstein also sold 1,000,000, and 110,000 Common Shares, respectively.

During the year ended December 31, 2004, Kenneth F. Bernstein, President and Chief Executive Officer, and certain former trustees of the Company exercised 400,000 and 20,000 options to purchase Common Shares, respectively.

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In February 2002, the Board of Trustees voted to permit Yale University ( Yale ) to acquire 2,266,667 additional Common Shares by granting a conditional waiver of the provision in the Company's Declaration of Trust that prohibits ownership positions in excess of 4% of the Company. The waiver was limited to this particular transaction. Additionally, as a condition to approving the waiver, Yale agreed to establish a voting trust whereby all shares owned by Yale University in excess of 30% of the Company's outstanding Common Shares, will be voted in the same proportion as all other shares voted, excluding Yale. Following the waiver, Yale owned 8,421,759 Common Shares or 34% of the Company's outstanding Common Shares. As of April 13, 2005, Yale has reduced its ownership to 3,635,066 Common Shares, or 12% of the Company's outstanding Common Shares.

On March 22, 2005, the Company completed a transaction with Klaff pursuant to which the Company acquired the balance of Klaff's retail management business which it had not previously purchased on January 27, 2004. The consideration for the acquisition was the sum of \$4.0 million in the form of 250,000 restricted common operating partnership units (\$16 per unit). These units may not be sold for five years, subject to a carveout for a change of control, including a change in the chief executive officer. The effective date of the purchase and issuance of the

units is February 15, 2005.

Mr. Wielansky, who currently serves as Lead Trustee, is entitled to receive annual consulting fees totaling \$100,000 for providing consulting services to the Company including assisting with the underwriting and analysis of development and redevelopment opportunities as well as assisting with sourcing of direct acquisitions and identifying potential acquisition partners.

#### **ANNUAL SHAREHOLDERS REPORT**

A copy of the Company's Annual Report to Shareholders is being provided to each shareholder of the Company along with this Proxy Statement. Upon written request of any record or beneficial owner of Common Shares of the Company whose proxy was solicited in connection with the Annual Meeting, the Company will furnish such owner, without charge, a copy of its Annual Report on Form 10-K for the year ended December 31, 2004. A request for a copy of such Annual Report on Form 10-K should be made in writing, addressed to Acadia Realty Trust, 1311 Mamaroneck Avenue, Suite 260, White Plains, NY 10605, Attention: Robert Masters.

#### **OTHER MATTERS**

As of the date of this Proxy Statement, the Board of Trustees does not know of any matters to be presented at the Annual Meeting other than those specifically set forth in the Notice of Annual Meeting of Shareholders. If other proper matters, however, should come before the Annual Meeting or any adjournment thereof, the persons named in the enclosed proxy intend to vote the shares represented by them in accordance with their best judgment in respect to any such matters.

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

Section 16(a) of the Exchange Act requires the Company's officers and trustees and persons who own more than ten percent of the Common Shares (collectively, the Reporting Persons) to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish the Company with copies of these reports. Based on the Company's review of the copies of these reports received by it, the Company has determined that all reports were timely filed.

#### **SUBMISSION OF SHAREHOLDER PROPOSALS**

All proposals of any shareholder of the Company which the holder desires be presented at the next annual meeting of Shareholders and be included in the proxy statement and form of proxy prepared for that meeting must be received by the Company at its principal executive offices no later than 5:00 PM EST on January 4, 2006. All such proposals must be submitted in writing to the Secretary of the Company at the address appearing on the notice accompanying this proxy statement.

By order of the Board of Trustees,

Robert Masters, Secretary

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#### **Exhibit A**

#### **CHARTER OF THE AUDIT COMMITTEE**

##### **I. Purpose**

The Audit Committee is established by and amongst the Board of Trustees for the primary purpose of assisting the Board in:

overseeing the integrity of the Company's financial statements,

overseeing the Company's compliance with legal and regulatory requirements,

overseeing the independent auditor's qualifications and independence,

overseeing the performance of the company's internal audit function and independent auditor, and

overseeing the Company's system of disclosure controls and system of internal controls regarding finance, accounting, legal compliance, and ethics that management and the Board have established.

Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures and practices at all levels. The Audit Committee should also provide an open avenue of communication among the independent auditors, financial and senior management, the internal auditing function, and the Board of Trustees.

The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting, or other advisors as deemed appropriate to perform its duties and responsibilities.

The Company shall provide appropriate funding, as determined by the Audit Committee, for compensation to the independent auditor and to any advisers that the audit committee chooses to engage, as well as for ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Section III of this Charter. The Audit Committee will report regularly to the Board of Trustees regarding the execution of its duties and responsibilities.

## **II. Composition And Meetings**

The Audit Committee shall be comprised of three or more Trustees as determined by the Board, each of whom shall be independent Trustees (as defined by all applicable rules and regulations), and free from any relationship (including disallowed compensatory arrangements) that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. All members of the Committee shall be financially literate and have a working familiarity with basic finance and accounting practices, and at least one member must have accounting or related financial management experience. The Board shall determine whether at least one member of the Committee qualifies as an audit committee financial expert in compliance with the criteria established by the SEC and other relevant regulations. The existence of such member, including his or her name and whether or not he or she is independent, shall be disclosed in periodic filings as required by the SEC. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board or until their successors shall be duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

Unless otherwise provided for in this Charter, the provisions set forth in the Company's Bylaws for meetings of the Board and its committees shall govern the quorum and voting requirements for all meetings of the Committee.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. Each regularly scheduled meeting shall conclude with an executive session of the Committee absent members of management and on such terms and conditions as the Committee may elect. As part of its job to foster open

communication, the Committee should meet separately, periodically with management, the internal auditors (or other personnel responsible for the internal audit function) and the independent auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. In addition, the Committee should meet quarterly with the independent auditors and

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management to discuss the annual audited financial statements and quarterly financial statements, including the Company's disclosure under Management's Discussion and Analysis of Financial Condition and Results of Operations.

### III. Responsibilities And Duties

To fulfill its responsibilities and duties the Audit Committee shall:

#### Documents/Reports/Accounting Information Review

1. Review this Charter periodically, at least annually, and recommend to the Board of Trustees any necessary amendments as conditions dictate.
2. Review and discuss with management the Company's annual financial statements, quarterly financial statements, and all internal controls reports (or summaries thereof). Review other relevant reports or financial information submitted by the Company to any governmental body, or the public, including management certifications as required by the Sarbanes-Oxley Act of 2002 (Sections 302 and 906) and relevant reports rendered by the independent auditors (or summaries thereof).
3. Recommend to the Board whether the financial statements should be included in the Annual Report on Form 10-K. Review with financial management and the independent auditors the 10-Q prior to its filing (or prior to the release of earnings).
4. Review with the full Board of Trustees any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors and the performance of the internal audit function.
5. Review earnings press releases with management, including review of pro-forma or adjusted non-GAAP information.
6. Discuss with management financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be on general terms (i.e., discussion of the types of information to be disclosed and the type of presentation to be made).
7. Review the regular internal reports (or summaries thereof) to management prepared by the internal auditors and management's response.

#### Independent Auditors

8. Appoint (subject to shareholder ratification, if applicable), compensate, and oversee the work performed by the independent auditor for the purpose of preparing or issuing an audit report or related work. Review the performance of the independent auditors and remove the independent auditors if circumstances warrant. The independent auditors shall report directly to the audit committee and the audit committee shall oversee the resolution of disagreements between management and the independent auditors in the event that they arise. Consider whether the auditor's performance of permissible non-audit services is compatible with the auditor's independence.
9. Review with the independent auditor any problems or difficulties and management's response, including: any accounting adjustments that were noted or proposed by the auditor but were passed (as material or otherwise); any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement; and any management or internal control letter issued, or proposed to be issued, by the audit firm to the Company. Such difficulties include any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management.

10. Review the independent auditor's attestation and report on management's internal control report; and hold timely discussions with the independent auditors regarding the following:

all critical accounting policies and practices;

all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor;

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other material written communications between the independent auditor and management including, but not limited to, the management letter and schedule of unadjusted differences; and

an analysis of the auditor's judgment as to the quality of the Company's accounting principles, setting forth significant reporting issues and judgments made in connection with the preparation of the financial statements.

11. At least annually, obtain and review a report by the independent auditor describing:

the firm's internal quality control procedures;

any material issues raised by the most recent internal quality-control review, peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and

(to assess the auditor's independence) all relationships between the independent auditor and the Company.

After reviewing the foregoing report, the Audit Committee should evaluate the independent auditor's qualifications, performance and independence, including a review and evaluation of the lead partner, taking into account the opinions of management and the Company's internal auditors (or other personnel responsible for the internal audit function). In addition to assuring the regular rotation of the audit partner, the Committee should consider whether there should be regular rotation of the audit firm itself to assure continuing auditor independence. The Committee should present its conclusions with respect to the independent auditor to the full Board of Directors.

12. Review and pre-approve both audit and non-audit services to be provided by the independent auditor (other than with respect to de minimis exceptions permitted by the Sarbanes-Oxley Act of 2002). This duty may be delegated to one or more designated members of the Audit Committee with any such pre-approval reported to the full Audit Committee at its next regularly scheduled meeting. Approval of non-audit services shall be disclosed to investors in periodic reports required by Section 13(a) of the Securities Exchange Act of 1934.
13. Set clear hiring policies, compliant with governing laws or regulations, for employees or former employees of the independent auditor.

### **Financial Reporting Processes and Accounting Policies**

14. In consultation with the independent auditors and the internal auditors, review the integrity of the organization's financial reporting processes (both internal and external), and the internal control structure (including disclosure controls). Meet with representatives of the disclosure committee (if one exists) on a periodic basis to discuss any matters of concern arising from the disclosure committee's quarterly process to assist the CEO and CFO in their Sarbanes-Oxley Act of 2002 Section 302 certifications.
15. Review with management major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies.
16. Review analyses prepared by management (and the independent auditor as noted in item 8 above) setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

17. Review with management the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
18. Review and approve all related party transactions.

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19. Establish and maintain procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting, or auditing matters.
20. Establish and maintain procedures for the confidential, anonymous submission by Company employees regarding questionable accounting or auditing matters.

### **Internal Audit**

21. Review and advise on the selection and removal of the internal audit director to oversee the internal audit function to provide management and the Audit Committee with ongoing assessments of the Company's risk management processes and system of internal control.
22. Review activities, organizational structure, and qualifications of the internal audit function.
23. Annually, review and recommend changes (if any) to the internal audit charter.
24. Periodically review with the internal audit director any significant difficulties, disagreements with management, or scope restrictions encountered in the course of the function's work.
25. Periodically review with the independent auditor, the budget, staffing, and responsibilities of the internal audit function.

### **Ethical Compliance, Legal Compliance, and Risk Management**

26. Establish, review and update periodically a Code of Ethical Conduct and ensure that management has established a system to enforce this Code. Ensure that the code is in compliance with all applicable rules and regulations.
27. Review management's monitoring of the Company's compliance with the organization's Ethical Code, and ensure that management has the proper review system in place to ensure that Company's financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy legal requirements.
28. Review, with the organization's counsel, legal compliance matters including corporate securities trading policies.
29. Review, with the organization's counsel, any legal matter that could have a significant impact on the organization's financial statements.
30. Discuss policies with respect to risk assessment and risk management. Such discussions should include the Company's major financial and accounting risk exposures and the steps management has undertaken to control them.

### **Other Responsibilities**

31. Review with the independent auditors, the internal auditing department and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)
32. Prepare the report that the SEC requires be included in the Company's annual proxy statement.
33. Annually, perform a self-assessment relative to the Audit Committee's purpose, duties and responsibilities outlined herein.
34. Perform any other activities consistent with this Charter, the Company's by-laws and governing law, as the Committee or the Board deems necessary or appropriate.



**ACADIA REALTY TRUST**  
**1311 MAMARONECK AVENUE**  
**SUITE 260**  
**WHITE PLAINS, NY 10605**

**VOTE BY MAIL**

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

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: ACADIA KEEP THIS PORTION FOR YOUR RECORDS  
 DETACH AND RETURN THIS PORTION ONLY  
**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**ACADIA REALTY TRUST**

THE BOARD OF TRUSTEES RECOMMENDS THAT YOU VOTE FOR THE NOMINEES AND EACH OF THE PROPOSALS LISTED BELOW.

**For All** **Withhold All** **For All Except** To withhold authority to vote for any individual nominee, mark **For All** and write the nominee's number on the line below.

**Vote On Directors**

1. **Nominees:**

- |                          |                        |
|--------------------------|------------------------|
| 01) Kenneth F. Bernstein | 05) Lorrence T. Kellar |
| 02) Douglas Crocker II   | 06) Wendy Luscombe     |
| 03) Alan S. Forman       | 07) Lee S. Wielansky   |
| 04) Suzanne Hopgood      |                        |

\* \* \*

**Vote On Proposals**

2. TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT AUDITORS FOR THE COMPANY FOR THE FISCAL YEAR ENDING DECEMBER 31, 2005.
3. TO TRANSACT SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

**For** **Against** **Abstain**

\* \* \*

\* \* \*

Please sign exactly as name appears on the certificate or certificates representing shares to be voted by this proxy, as shown on the label above. When signing as executor, administrator, attorney, trustee, or guardian, please give full title as such. If a corporation, please sign full corporation name by president or other authorized officer. If a partnership, please sign In partnership name by authorized person(s).

For comments, please check this box and write them on the back where indicated \*

Signature [PLEASE SIGN WITHIN BOX]                      Date                      Signature (Joint Owners)                      Date

**ACADIA REALTY TRUST  
PROXY FOR ANNUAL MEETING OF  
SHAREHOLDERS  
MAY 18, 2005  
This Proxy is Solicited on  
Behalf  
of the Board of Trustees**

The undersigned hereby constitutes and appoints Kenneth F. Bernstein and Robert Masters, Esq., or either one of them, as proxies, with full power of substitution, to vote all common shares of beneficial interest of Acadia Realty Trust ( the Company ) which the undersigned would be entitled to vote if personally present at the Annual Meeting of Shareholders of the Company to be held at the offices of Paul, Hastings, Janofsky & Walker, LLP, which are located at Park Avenue Tower, 75 East 55th Street, New York, NY 10022 at 10:00 o'clock a.m. local time, May 18, 2005 or at any adjournments or postponements thereof.

**THIS PROXY IS ON BEHALF OF THE BOARD OF TRUSTEES.**

**Comments:**

(If you noted any Comments above, please mark corresponding box on the reverse side.)  
**(Continued and to be signed on reverse side.)**