

American Realty Capital Trust, Inc.
Form 10-Q
November 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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: 333-145949

AMERICAN REALTY CAPITAL TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

71-1036989
(I.R.S. Employer Identification
No.)

106 York Road
Jenkintown, PA
(Address of principal executive
offices)

19046
(Zip Code)

(215) 887-2189
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☒ No

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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 definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated
filer “

Accelerated filer “

Non-accelerated filer (Do not check if a smaller reporting
x 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 x No

The number of outstanding shares of the registrant’s common stock on November 11, 2010 was 51,381,974 shares.

AMERICAN REALTY CAPITAL TRUST, INC.
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PART I - Financial Information

Item 1. Financial Statements

AMERICAN REALTY CAPITAL TRUST, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Real estate investments, at cost:		
Land	\$ 114,219	\$ 37,779
Buildings, fixtures and improvements	483,068	261,939
Acquired intangible lease assets	78,529	38,838
Total real estate investments, at cost	675,816	338,556
Less accumulated depreciation and amortization	(25,379)	(11,292)
Total real estate investments, net	650,437	327,264
Cash and cash equivalents	4,406	5,010
Restricted cash	77	43
Prepaid expenses and other assets	8,700	4,458
Deferred financing costs, net	5,991	2,502
Total assets	\$ 669,611	\$ 339,277
LIABILITIES AND EQUITY		
Short-term bridge equity funds	\$ —	\$ 15,878
Mortgage notes payable	285,668	183,811
Long-term notes payable	12,790	13,000
Below-market lease liabilities, net	8,530	9,085
Derivatives, at fair value	6,880	2,768
Accounts payable and accrued expenses	3,546	1,536
Deferred rent and other liabilities	1,317	1,144
Distributions payable	2,380	1,499
Total liabilities	321,111	228,721
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.01 par value; 240,000,000 shares authorized, 43,370,222 and 14,672,237 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	433	147
Additional paid-in capital	366,033	122,506
Accumulated other comprehensive loss	(5,283)	(1,737)
Accumulated deficit	(28,750)	(13,669)
Total American Realty Capital Trust, Inc. stockholders' equity	332,433	107,247
Noncontrolling interests	16,067	3,309
Total equity	348,500	110,556

Total liabilities and equity	\$	669,611	\$	339,277
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The accompanying notes are an integral part of these financial statements.

AMERICAN REALTY CAPITAL TRUST, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Rental income:				
Rental income	\$ 11,928	\$ 3,781	\$ 28,737	\$ 9,643
Total rental income	11,928	3,781	28,737	9,643
Operating expenses:				
Asset management fees to affiliate	500	70	850	70
Acquisition and transaction related	785	347	1,766	347
General and administrative	250	110	811	307
Depreciation and amortization	5,731	2,084	14,237	5,544
Total operating expenses	7,266	2,611	17,664	6,268
Operating income	4,662	1,170	11,073	3,375
Other income (expense):				
Interest expense	(4,724)	(2,522)	(12,511)	(7,292)
Interest income	35	18	67	22
Gain on disposition of property, net	143	—	143	—
Gains on sales to noncontrolling interest holders, net	67	—	419	—
Gains (losses) on derivative instruments	(177)	(195)	(568)	354
Total other expenses	(4,656)	(2,699)	(12,450)	(6,916)
Net income (loss)	6	(1,529)	(1,377)	(3,541)
Net (income) loss attributable to noncontrolling interests	(80)	45	(76)	45
Net loss attributable to American Realty Capital Trust, Inc.	\$ (74)	\$ (1,484)	\$ (1,453)	\$ (3,496)
Basic and diluted loss per share attributable to American Realty Capital Trust, Inc.	\$ (0.00)	\$ (0.22)	\$ (0.06)	\$ (0.92)

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

AMERICAN REALTY CAPITAL TRUST, INC.
CONSOLIDATED STATEMENT OF EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2010
(In thousands except share data)
(Unaudited)

	Common Stock			Accumulated Other Comprehensive Loss		Accumulated Deficit	Total American Realty Capital Trust, Inc. Stockholders' Equity	Non-controlling Interests	Total Equity
	Number of Shares	Par Value	Additional Paid-In Capital						
Balance, December 31, 2009	14,672,237	\$ 147	\$ 122,506	\$	(1,737)	\$ (13,669)	\$ 107,247	\$ 3,309	\$ 110,556
Issuance of common stock, net	27,546,792	275	273,122		—	—	273,397	—	273,397
Offering costs, commissions and dealer manager fees		—	(32,930)		—	—	(32,930)	—	(32,930)
Common stock issued through distribution reinvestment plan	601,873	6	5,712		—	—	5,718	—	5,718
Common stock redemptions	(159,680)	(2)	(2,447)		—	—	(2,449)	—	(2,449)
Share based compensation	709,000	7	70		—	—	77	—	77
Distributions declared		—	—	—	—	(13,628)	(13,628)	—	(13,628)
Contributions from noncontrolling interests		—	—	—	—	—	—	13,966	13,966
Distributions to noncontrolling interests		—	—	—	—	—	—	(661)	(661)
Gain on sale of assets to noncontrolling interest holders		—	—	—	—	—	—	(623)	(623)
Designated derivatives fair value adjustment		—	—	—	(3,546)	—	(3,546)	—	(3,546)

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Net loss	—	—	—	—	(1,453)	(1,453)	76	(1,377)
Total comprehensive loss	—	—	—	—	—	(4,999)	76	(4,923)
Balance, September 30, 2010	43,370,222	\$ 433	\$ 366,033	\$ (5,283)	\$ (28,750)	\$ 332,433	\$ 16,067	\$ 348,500

The accompanying notes are an integral part of this financial statement.

AMERICAN REALTY CAPITAL TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (1,377)	\$ (3,541)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	11,415	4,412
Amortization of intangibles	2,822	1,131
Amortization of deferred finance costs	703	418
Amortization of restricted share grants	77	—
Accretion of below-market lease liability	(235)	(236)
Gain on disposition of property	(143)	—
Gains on sales to noncontrolling interest holders	(623)	—
Losses (gains) on derivative instruments	568	(354)
Changes in assets and liabilities:		
Prepaid expenses and other assets	(4,148)	(2,830)
Accounts payable and accrued expenses	2,010	(802)
Due from affiliated entity	—	(2,013)
Deferred rent and other liabilities	173	298
Net cash provided by (used in) operating activities	11,242	(3,517)
Cash flows from investing activities:		
Investment in real estate and other assets	(338,280)	(76,321)
Dispositions of real estate and other assets	757	—
Net cash used in investing activities	(337,523)	(76,321)
Cash flows from financing activities:		
Proceeds on mortgage notes payable	105,378	25,300
Payments on mortgage notes payable	(3,521)	(732)
Proceeds on related party bridge facility	—	9,553
Payments on related party bridge facility	—	(18,030)
Payments on short-term convertible redeemable preferred	—	(3,995)
Proceeds on related party convertible bridge revolver	—	2,715
Payments on related party convertible bridge revolver	—	(9,215)
Proceeds on short-term bridge funds	—	15,878
Payments on short-term bridge funds	(15,878)	(11,954)
Proceeds from long-term notes payable	—	11,910
Payments on long-term notes payable	(210)	—
Contributions from noncontrolling interests	13,966	3,108
Distributions to noncontrolling interests	(661)	(36)
Proceeds from issuances of common stock, net	240,319	65,105
Payments of deferred financing costs	(4,196)	(1,049)
Distributions paid	(7,037)	(920)

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Payments for share redemptions	(2,449)	—
Restricted cash	(34)	10
Net cash provided by financing activities	325,677	87,648
Net increase (decrease) in cash	(604)	7,810
Cash, beginning of period	5,010	887
Cash, end of period	\$ 4,406	\$ 8,697

AMERICAN REALTY CAPITAL TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Supplemental Disclosures of Investing and Financing Activities:		
Cash paid for income taxes	\$ 388	\$ —
Cash paid for interest	\$ 14,541	\$ 7,418

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

AMERICAN REALTY CAPITAL TRUST, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 1 — Organization

American Realty Capital Trust, Inc. (the “Company”), incorporated on August 17, 2007, is a Maryland corporation that qualifies as a real estate investment trust (“REIT”) for federal income tax purposes. On January 25, 2008, the Company commenced an initial public offering on a “best efforts” basis of up to 150,000,000 shares of common stock offered at a price of \$10.00 per share, subject to certain volume and other discounts, pursuant to a Registration Statement on Form S-11 filed with the Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “Offering”). The Registration Statement also covered up to 25,000,000 shares available pursuant to a distribution reinvestment plan (the “DRIP”) under which the Company’s stockholders may elect to have their distributions reinvested in additional shares of the Company’s common stock at the greater of \$9.50 per share or 95% of the estimated value of a share of common stock. The Company sold 20,000 shares to American Realty Capital II, LLC (the “Sponsor”) on August 17, 2007, at \$10.00 per share. As of September 30, 2010, the Company issued 43.4 million shares of common stock. Total gross proceeds from these issuances were \$422.2 million. As of September 30, 2010, the aggregate value of all share issuances and subscriptions outstanding was \$426.2 million based on a per share value of \$10.00 (or \$9.50 for shares issued under the DRIP).

On August 5, 2010, the Company filed a registration statement on Form S-11 to register 32,500,000 shares of common stock in connection with the follow on offering to its initial public offering. The initial public offering was originally set to expire on January 25, 2011, three years after its effective date. However, as permitted by Rule 415 of the Securities Act, the Company will now continue its initial public offering until the earlier of July 24, 2011 or the date that the SEC declares the registration statement for the follow on offering effective. Total capital raised under the current registration and follow on offering will not exceed \$1.5 billion.

Substantially all of the Company’s business is conducted through American Realty Capital Operating Partnership, L.P. (the “OP”), a Delaware limited partnership. The Company is the sole general partner of and owns a 99.01% partnership interest in the OP. American Realty Capital Advisors, LLC (the “Advisor”), the Company’s affiliated Advisor, is the sole limited partner and owner of 0.99% (noncontrolling interest) of the partnership interests of the OP. In March 2008, the OP issued to the Company 20,000 Operating Partnership units in exchange for \$0.2 million. Additionally, in April 2008, the Advisor contributed \$2 thousand to the OP in exchange for a 0.99% limited partner interest in the OP. The limited partner interests have the right to convert OP units into cash or, at the option of the Company, an equal number of common shares of the Company, as allowed by the limited partnership agreement. The remaining rights of the limited partner interests are limited, however, and do not include the ability to replace the general partner or to approve the sale, purchase or refinancing of the OP’s assets.

The Company is managed by the Advisor and American Realty Capital Properties, LLC, which serves as the Company’s property manager (the “Property Manager”). Realty Capital Securities, LLC (the “Dealer Manager”), an affiliate of the Sponsor, serves as the dealer manager of the Company’s Offering. These related parties receive compensation and fees for services related to the Offering and for the investment and management of the Company’s assets. These entities receive fees during the offering, acquisition, operational and liquidation stages. The compensation levels during the offering, acquisition and operational stages are discussed in Note 10 — Related Party Transactions and Arrangements.

AMERICAN REALTY CAPITAL TRUST, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

The Company's stock is not listed on a national securities exchange. The Company may seek to list its stock for trading on a national securities exchange only if a majority of its independent directors believe listing would be in the best interest of its stockholders. The Company does not intend to list its shares at this time. The Company does not anticipate that there would be any market for its common stock until its shares are listed for trading. In the event the Company is not listed prior to the tenth anniversary of the completion or termination of the Offering, its charter requires that the Company either: (i) seek stockholder approval of an extension or amendment of this listing deadline; or (ii) seek stockholder approval to adopt a plan of liquidation of the corporation.

Note 2 — Summary of Significant Accounting Policies

The Company's significant accounting policies are described in Note 2 to the consolidated financial statements in the Company's Form 10-K for the year ended December 31, 2009. There have been no significant changes to these policies during 2010.

Note 3 — Real Estate Investments

The following table presents the allocation of the assets acquired during the three and nine months ended September 30, 2010 and 2009 (dollar amounts in thousands):

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	Three and Nine Months Ended September 30, 2009
Real estate investments, at cost:			
Land	\$ 46,662	\$ 76,561	\$ 8,332
Buildings, fixtures and improvements	93,271	221,813	58,483
	139,933	298,374	66,815
Intangibles and other assets:			
In-place leases	16,163	39,906	9,506
Total assets acquired	156,096	338,280	76,321
Cash paid for acquired real estate investments	\$ 156,096	\$ 338,280	\$ 76,321
Number of properties purchased during period	62	103	34

AMERICAN REALTY CAPITAL TRUST, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 3 — Real Estate Investments (continued)

The Company acquires and operates commercial properties. All such properties may be acquired and operated by the Company alone or jointly with another party. As of September 30, 2010, all of the properties the Company owned were 100% occupied by an investment grade or credit quality tenant on a long-term basis comprised of freestanding, single tenant commercial space. The Company's portfolio of real estate properties is comprised of the following properties as of September 30, 2010 (dollar amounts in thousands):

Property Name	Acquisition Date	No. of Buildings	Square Feet	Ownership Percentage	Remaining Lease Term (1)	Base Purchase Price (2)	Capitalization Rate (3)	Net Operating Income (4)	P
	March 2008	1	55,440	51%	8.8	\$ 9,694	7.53%	\$ 730	\$
	March 2008	15	177,774	100%	12.3	40,976	7.48%	3,064	
ist	May 2008	18	121,057	100%	10.8	32,188	7.86%	2,530	
)	September & October 2008	2	8,403	81%	18.4	6,664	8.21%	547	
	September 2008	6	74,919	100%	12.8	18,576	7.79%	1,447	
	November 2008	49	266,188	100%	8.2	41,605	7.35%	3,060	
	July 2009	1	152,640	100%	13.1	31,692	8.84%	2,803	
	July 2009	1	14,820	56%	21.8	3,818	8.12%	310	
	September 2009								
	September 2010	10	131,105	72%	23.5	44,371	8.37%	3,713	
	November 2009	15	198,729	100%	23.8	59,788	8.48%	5,071	
	December 2009	1	465,600	100%	19.3	23,532	9.31%	2,192	
	December 2009 & January 2010	6	57,336	100%	13.6	15,041	9.24%	1,390	
o	December 2009	1	7,000	100%	11.2	1,730	9.25%	160	
	January 2010	2	140,000	100%	11.8	12,462	9.30%	1,159	
kiser	February 2010	1	574,106	85%	11.4	31,735	8.41%	2,668	

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ox	February 2010 & April 2010	5	12,253	100%	19.4	10,010	7.80%	781
	February & March 2010	12	93,599	78%	13.3	26,414	8.70%	2,299
	April 2010	1	118,796	85%	10.7	34,171	9.03%	3,087
	May 2010	3	19,534	100%	18.4	5,457	12.44%	679
	May 2010	1	14,820	100%	22.5	5,684	7.97%	453
	May 2010	1	5,172	100%	15.5	2,445	8.22%	201
o II	June 2010	3	19,253	100%	12.8	3,674	8.38%	308

AMERICAN REALTY CAPITAL TRUST, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 3 — Real Estate Investments (continued)

Property / Name	Acquisition Date	No. of Buildings	Square Feet	Ownership Percentage	Remaining Lease Term (1)	Base Purchase Price (2)	Capitalization Rate (3)	Net Operating Income (4)	Total Purchase Price
Property &	June 2010	1	59,032	100%	12.4	23,795	8.18%	1,946	
	June 2010	1	4,139	100%	11.5	2,300	8.87%	204	
	June 2010	1	5,111	100%	20.9	3,319	9.13%	303	
Property II	June 2010	1	6,157	100%	16.4	1,635	12.78%	209	
Property Box II	June 2010	6	14,975	100%	19.8	11,396	7.83%	892	
Property III	June 2010	1	13,386	100%	23.6	5,062	7.61%	385	
General	July 2010	1	8,988	100%	14.2	1,228	9.61%	118	
Property	July & August 2010	4	76,038	100%	14.7	11,198	8.73%	978	
Auto III	July 2010	3	19,752	100%	12.9	4,385	8.16%	358	
Property V	August 2010	1	15,214	100%	22.4	4,950	7.11%	352	
Property Fifth	August 2010	2	8,252	100%	17.5	6,199	8.41%	520	
Property greens	August 2010	5	84,263	100%	22.3	27,351	7.17%	1,961	
Property	August 2010	2	8,030	100%	26.6	5,939	9.48%	604	
Property	September 2010	1	107,965	100%	17.4	8,720	7.25%	621	
	September 2010	19	87,009	100%	14.1	30,818	9.19%	2,833	
Auto	September 2010	1	9,500	100%	9.4	2,508	8.53%	214	
Property IV	September 2010	1	14,450	100%	24.5	6,546	7.62%	499	

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s V	September 2010	1	13,580	100%	23.7	4,850	7.81%	379
o	September 2010	14	67,310	100%	14.5	23,043	8.98%	2,069
	September 2010	1	43,762	100%	9.8	3,649	8.11%	296
	September 2010	4	28,900	100%	15.9	10,434	8.23%	859
		226	3,424,357		15.7 \$	661,052	8.36% \$	55,252 \$

AMERICAN REALTY CAPITAL TRUST, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 3 — Real Estate Investments (continued)

- (1) - Remaining lease term as of September 30, 2010, in years. If the portfolio has multiple locations with varying lease expirations, remaining lease term is calculated on a weighted-average basis.
- (2) - Contract purchase price excluding acquisition related costs.
- (3) - Net operating income divided by base purchase price.
- (4) - Annualized rental income less property operating expenses, as applicable.
- (5) - Base purchase for acquisitions prior to January 1, 2009 include capitalized acquisition related costs. Effective January 1, 2009, acquisition and transaction related costs are required to be expensed as incurred in accordance with generally accepted accounting principles.
- (6) - Ownership percentage is 51% of one property and 65% of one property.
- (7) - Ownership percentage of three properties is 51% and 100% of the remaining seven properties.
- (8) - Includes the September 2010 purchase of a parcel of land with a ground lease which contains a previously purchased CVS pharmacy.
- (9) - Ownership percentage of six properties is 55% and 100% of the remaining six properties.
- (10) - Property is a parcel of land with a ground lease which contains a building that will be conveyed to the Company at the end of the ground lease. Square footage and number of buildings refers to the building that is constructed on the parcel of land owned by the Company.

The following table lists tenants whose rental income represents greater than 10% of consolidated rental income on an annualized basis as of September 30, 2010 and 2009:

	2010	2009
CVS	17%	—
FedEx	13%	14%
PNC Bank	7%	21%
First Niagara	6%	27%
Rockland Trust Company	5%	22%
Rite Aid	3%	13%

No other tenant represents more than 10% of the annualized rental income for the periods presented.

In September 2010, the Company sold one of the original 50 PNC properties acquired in November 2008 to an unaffiliated third party. The sales proceeds net of closing costs were \$0.8 million. A gain of \$0.1 million was recorded on the disposition of the property.

Note 4 — Short-Term Bridge Equity Funds and Lines of Credit

In connection with the purchase of real estate investments in 2009, the Company utilized short-term bridge equity funds to finance a portion of the acquisition price from time to time. There were no short-term equity bridge funds outstanding at September 30, 2010. The Company's short-term borrowings as of December 31, 2009, consisted of the following (dollar amounts in thousands):

Funds	Property	Bridge Equity Amount (1)	Effective Interest Rate	Interest Rate
Related party bridge facility	Various	\$ 15,878	5.75 %	Variable (2)

(1) Amount was repaid in January 2010

(2) Funds bore a floating interest rate based on the greater of prime rate plus 0.75% or 5.75%

AMERICAN REALTY CAPITAL TRUST, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited)

Note 4 — Short-Term Bridge Equity Funds and Lines of Credit (continued)

At September 30, 2010, the Company had available a \$10.0 million revolving line of credit unsecured bridge facility with an affiliated entity. There were no amounts outstanding under this facility at September 30, 2010 or December 31, 2009. There are no unused borrowing fees associated with this facility.

On July 27, 2010, the Company entered into a credit agreement with Capital One, N.A. to obtain a secured revolving credit facility in an aggregate maximum principal amount of \$30 million. The proceeds of loans made under the credit agreement will be used to finance the acquisition of net leased, investment or non-investment grade properties. The initial term of the credit agreement is 30 months, which may be extended by 12 months, subject to satisfaction of certain conditions, including payment of an extension fee.

Any loan made under the Capital One credit agreement shall bear floating interest at per annum rates equal to either one month LIBOR plus 3.25% or three month LIBOR plus 3.25%, at the Company's option. In the event of a default, Capital One has the right to terminate its obligations under the credit agreement, including the funding of future loans, and to accelerate the payment on any unpaid principal amount of all outstanding loans. The line of credit requires a 0.25% non-usage fee on the unused balance.

On August 5, 2010, the Company entered into a credit agreement with U.S. Bank, N.A. to obtain a secured revolving credit facility in an aggregate maximum principal amount of \$20 million, which shall be increased to \$30 million six months after closing. The proceeds of loans made under the credit agreement will be used to finance the acquisition of net leased, investment or non-investment grade properties. The initial term of the credit agreement is 24 months, with a one-time extension option of 12 months, subject to satisfaction of certain conditions, including payment of an extension fee.

Any loan made under the U.S. Bank credit agreement shall bear floating interest at a per annum rate equal to one month LIBOR plus 3.25%. In the event of a default, U.S. Bank has the right to suspend the funding of future loans and to accelerate the payment on any unpaid principal amount of the outstanding loans. The Company intends to collateralize the line of credit with certain properties which are currently owned or will be acquired. The line of credit requires a 0.25% non-usage fee on the unused balance.

The Company must collateralize the Capital One and U.S. Bank lines of credit with certain of its properties in addition to meeting certain minimum cash deposit requirements. The Company has not yet drawn on these lines of credit as of September 30, 2010.

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Note 5 — Mortgage Notes Payable

The Company's mortgage notes payable as of September 30, 2010 consist of the following (dollar amounts in thousands):

Property	Encumbered Properties	Outstanding Loan Amount	Effective Interest Rate	Interest Rate	Maturity
FedEx	1	\$ 6,965	6.29 %	Fixed	September 2037
First Niagara	15	31,000	6.59 % (1)	Fixed	January 2018
Rockland Trust	18	23,292	4.92 % (2)	Fixed	May 2013
PNC Bank	2	4,357	4.58 % (3)	Fixed	September 2013
Rite Aid	6	12,808	6.97 %	Fixed	September 2017
PNC	49	32,078	5.25 % (4)	Fixed	November 2013
FedEx II	1	16,139	6.03% (5)	Fixed	January 2015
Walgreens	1	1,550	6.64% (6)	Fixed	August 2019
CVS I	10	23,524	6.88% (7)	Fixed	October 2019
CVS II	15	32,820	6.64%	Fixed	December 2014
Home Depot	1	12,150	6.03%	Fixed	July 2015
BSFS	6	3,817	6.61% (8)	Fixed	June 2030
Fresenius	2	6,054	6.63%	Fixed	February 2015
Reckitt Benckiser	1	14,923	6.23% (9)	Fixed	February 2017
Jack in the Box	4	4,373	6.45%	Fixed	March 2015
Jack in the Box	1	968	6.26%	Fixed	June 2015
FedEx III	1	15,000	5.57%	Fixed	May 2015
Walgreens II	1	3,000	5.58%	Fixed	May 2015
Super Stop & Shop	1	10,800	5.32%	Fixed	July 2015
Advance Auto/Walgreens (10)	7	6,550	5.58%	Fixed	September 2015
CSAA/Mixed (11)	10	19,600	4.36%	Fixed	September 2015
CSAA/Home Depot	1	3,900	4.56%	Fixed	October 2015
Total	154	\$ 285,668	5.92%		

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Note 5 — Mortgage Notes Payable (continued)

The Company's mortgage notes payable as of December 31, 2009 consist of the following (dollar amounts in thousands):

Property	Encumbered Properties	Outstanding Loan Amount	Effective Interest Rate	Interest Rate	Maturity
FedEx	1	\$ 6,965	6.29 %	Fixed	September 2037
First Niagara	15	31,000	6.59 % (1)	Fixed	January 2018
Rockland	18	23,649	4.92 % (2)	Fixed	May 2013
PNC Bank	2	4,412	4.89 % (3)	Fixed	September 2013
Rite Aid	6	12,808	6.97 %	Fixed	September 2017
PNC	50	32,933	5.25 % (4)	Fixed	November 2013
Walgreens	1	1,550	6.64% (6)	Fixed	August 2019
CVS I	10	23,710	6.88% (7)	Fixed	October 2019
CVS II	15	33,068	6.64%	Fixed	December 2014
Home Depot	1	13,716	6.34%	Fixed	December 2012
Total	119	\$ 183,811	6.15%		

- (1) - The effective interest rate resets at the end of year five to the then current five-year Treasury rate plus 2.25%, but in no event will be less than 6.5%.
- (2) - Fixed as a result of entering into a rate lock agreement with a LIBOR floor and cap of 3.54% and 4.125%, respectively.
- (3) - Fixed as a result of entering into a swap agreement with a rate of 3.565% for a notional amount of \$0.3 million and a rate lock agreement on a notional amount of \$4.1 million with a LIBOR floor and cap of 3.37% and 4.45%, respectively, in connection with the entering into the mortgage.
- (4) - Fixed as a result of entering in a swap agreement for 3.6% plus a spread of 1.65% in connection with entering into the mortgage.
- (5) - Fixed as a result of entering in a swap agreement for 2.775% plus a spread of 3.18% in connection with entering into the mortgage.
- (6) - The effective interest rate is fixed until 2014 then adjusts to the greater of 6.55% or the five-year U.S. Treasury rate plus 3.50%. The note can be prepaid with no less than 30 days notice with a 1% minimum premium of the then outstanding

principal balance.

- (7) - The effective interest rate adjusts at the discretion of the lender at the end of the sixth year.
- (8) - The effective rate is fixed for five years then adjusts based on the five-year treasury rate plus 4.00%.
- (9) - Fixed as a result of entering in a swap agreement for 3.295% plus a spread of 2.85% in connection with entering into the mortgage.
- (10) - Loan is collateralized by the Advance Auto II, Advance Auto III and Walgreens III properties.
- (11) - Loan is collateralized by the CSAA/CVS, CSAA/First Fifth Bank, CSAA/Walgreens and CSAA/Chase Bank properties.

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Note 5 — Mortgage Notes Payable (continued)

The following table summarizes the scheduled aggregate principal repayments of the mortgage notes payable for the five years subsequent to September 30, 2010 (in thousands):

	Total
September 2010 to December 2010	\$ 546
2011	3,039
2012	3,230
2013	59,621
2014	33,677
2015 and thereafter	185,555
Total	\$ 285,668

The sources of secured financing generally require financial covenants, including restrictions on corporate guarantees, the maintenance of certain financial ratios (such as specified debt to equity and debt service coverage ratios) as well as the maintenance of a minimum net worth. As of September 30, 2010, the Company was in compliance with the debt covenants under its outstanding loan agreements.

Note 6 — Long-Term Notes Payable

As of September 30, 2010, the Company had issued \$12.8 million of notes payable (the “Notes”) in a private placement pursuant to Rule 506 of Regulation D promulgated under the Securities Act. The proceeds of the private placement were used to repay outstanding short-term bridge equity fund draws.

The Notes bear interest at 9.0% annually, provided that the interest rate will be adjusted to 9.57% annually for Notes on which the Company does not incur a selling commission. The Company will pay interest-only monthly payments to subscribers of the Notes until the maturity on December 15, 2011. The Company has the right to extend the maturity date for two additional one-year periods.

The Company has the right to prepay the Notes in whole or in part any time following the first anniversary of the closing date. If repaid on or before the second anniversary of the closing date, the Company will pay 2.0% of the remaining amount due on the Notes as a prepayment premium. If repaid after the second anniversary of the closing date but before the third anniversary of the closing date, the Company will pay 1% of the remaining amount due on the Notes as a prepayment premium. The foregoing notwithstanding, the Company shall have the right to repay the amount due under the Notes in whole or in part without penalty within 360 days of the maturity date. The Company will not have the right to prepay the amount due under the notes during the two optional extension periods. The Notes are unsecured. During the third quarter of 2010, the Company accommodated noteholders' request to redeem notes of \$0.2 million.

The Company is required to prepay the Notes out of any proceeds derived from the sale or refinancing of the PNC Bank properties after any required payments of the principal and interest due under the mortgage notes payable on those properties (see Note 5 – Mortgage Notes Payable). Such prepayment is subject to the prepayment premiums described above.

The Company anticipates repaying the long-term notes payable by March 31, 2011.

As of September 30, 2010, the Company was in compliance with all covenants included within the Note agreement.

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Note 7 — Fair Value of Financial Instruments

The Company determines fair value based on quoted prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. This alternative approach also reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, and implied volatilities. The guidance defines three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions that market participants would use in the pricing of the asset or liability and are consequently not based on market activity, but rather through particular valuation techniques.

The determination of where an asset or liability falls in the hierarchy requires significant judgment and considers factors specific to the asset or liability. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company evaluates its hierarchy disclosures each quarter; and depending on various factors, it is possible that an asset or liability may be classified differently from quarter to quarter. However, the Company expects that changes in classifications between levels will be rare.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with those derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of September 30, 2010 and December 31, 2009, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of the Company's derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

AMERICAN REALTY CAPITAL TRUST, INC.
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Note 7 — Fair Value of Financial Instruments (continued)

The following table presents information about the Company's assets (including derivatives that are presented net) measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009, aggregated by the level in the fair value hierarchy within which those instruments fall (amounts in thousands):

	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
September 30, 2010:				
Total derivatives liability, net	\$ —	\$ 6,880	\$ —	\$ 6,880
December 31, 2009:				
Total derivatives liability, net	\$ —	\$ 2,768	\$ —	\$ 2,768

The Company is required to disclose the fair value of financial instruments for which it is practicable to estimate the value. The fair value of short-term financial instruments such as cash and cash equivalents, restricted cash, other receivables, due from affiliates, short-term bridge funds, accounts payable and accrued expenses and distributions payable approximates their carrying value on the consolidated balance sheet due to their short-term nature. Mortgage notes payable bear interest at fixed and variable rates. The fair value was obtained by calculating the present value based on current market rates. The fair values of the Company's remaining financial instruments that are not reported at fair value on the consolidated balance sheet are reported below (amounts in thousands):

	Carrying Amount at September 30, 2010	Fair Value at September 30, 2010	Carrying Amount at December 31, 2009	Fair Value at December 31, 2009
Mortgage notes payable	\$ 285,668	\$ 300,761	\$ 183,811	\$ 171,728
Other long-term notes payable	12,790	12,790	13,000	13,000

Note 8 — Derivative and Hedging Activities

Risk Management Objective of Using Derivatives

The Company may use derivative financial instruments, including interest rate swaps, caps, options, floors and other interest rate derivative contracts, to hedge all or a portion of the interest rate risk associated with its borrowings. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The Company does not intend to utilize derivatives for speculative or other purposes other than interest rate risk management. The use of derivative financial instruments carries certain risks, including the risk that the counterparties to these contractual arrangements are not

able to perform under the agreements. To mitigate this risk, the Company only enters into derivative financial instruments with counterparties with high credit ratings and with major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company does not anticipate that any of the counterparties will fail to meet their obligations.

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Note 8 — Derivative and Hedging Activities (continued)

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and collars as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate collars designated as cash flow hedges involve the receipt of variable-rate amounts if interest rates rise above the cap strike rate on the contract and payments of variable-rate amounts if interest rates fall below the floor strike rate on the contract.

During 2010 and 2009, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company recognized \$49 thousand related to ineffectiveness of one of its cash flow hedges during the three months and nine months ended September 30, 2010 and an immaterial amount for the three and nine months ended September 30, 2009.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional \$2.1 million will be reclassified from other comprehensive income as an increase to interest expense.

As of September 30, 2010, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

Interest Rate Derivative	Number of Instruments	Notional
Interest Rate Swaps	4	\$ 63,760
Interest Rate Collars	1	4,115

As of December 31, 2009, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

Interest Rate Derivative	Number of Instruments	Notional
	2	\$ 33,093

Interest Rate Swaps		
Interest Rate Collars	1	4,115

Non-Designated Hedges

Derivatives not designated as hedges are not speculative. These derivatives are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements to be classified as hedging instruments. The Company has one interest rate collar outstanding with an aggregate notional amount of \$23.4 million and \$23.9 million at September 30, 2010 and December 31, 2009, respectively, with an established ceiling and floor for the underlying variable rate

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Note 8 — Derivative and Hedging Activities (continued)

at 4.125% and 3.54%, respectively. This contract was not able to be designated as a hedging instrument as it does not qualify for hedge accounting based on the results of the net written option test. As such, all changes in the fair value of the interest rate collar have been included in the Company's statement of operations for the three and nine months ended September 30, 2010 and 2009. For the three months and nine months ended September 30, 2010, the Company has recorded unrealized losses of \$0.3 million and gains of \$0.1 million, respectively, related to this derivative instrument. For the three months and nine months ended September 30, 2009, the Company recorded unrealized losses of \$0.4 million and \$0.2 million, respectively, related to derivative instruments.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet as of September 30, 2010 and December 31, 2009 (in thousands):

	Balance Sheet Location	Fair Value (Liability)	
		September 30, 2010	December 31, 2009
Derivatives designated as hedging instruments:			
Interest Rate Products	Derivatives, at fair value	\$ (5,239)	\$ (1,646)
Derivatives not designated as hedging instruments:			
Interest Rate Products	Derivatives, at fair value	(1,641)	(1,122)

Derivatives in Cash Flow Hedging Relationships

The table below details the location in the financial statements of the gain or loss recognized on interest rate derivatives designated as cash flow hedges for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Amount of gain (loss) recognized in accumulated other comprehensive income as interest rate derivatives (effective portion)	\$ (1,657)	\$ (710)	\$ (5,057)	\$ (195)
Amount of loss reclassified from accumulated other comprehensive income into income as interest expense (effective portion)	(523)	(313)	(1,463)	(866)
	(49)	1	(49)	1

Amount of gain (loss) recognized in income on
derivative as gain (loss) on derivative instruments
(ineffective portion and amount excluded from
effectiveness testing)

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Note 8 — Derivative and Hedging Activities (continued)

Derivatives Not Designated as Hedging Instruments

The table below details the amount and location in the financial statements of the gain or loss recognized on derivatives not designated as hedging instruments for the three and nine months ended September 30, 2010 and 2009 (amounts in thousands):

Location of Gain or (Loss) Recognized in Income on Derivative	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest expense	\$ (577)	\$ (199)	\$ (581)	\$ (568)
Gains (losses) on derivative instruments	(128)	(196)	(519)	353
Total	\$ (705)	\$ (395)	\$ (1,100)	\$ (215)

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company either defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

The Company has agreements with several of its derivative counterparties that incorporate the loan covenant provisions of the Company's indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with the loan covenant provisions would result in the Company being in default on any derivative instrument obligations covered by the agreement.

As of September 30, 2010, the fair value of derivatives in a net liability position related to these agreements was \$6.8 million. As of September 30, 2010, the Company has not posted any collateral related to these agreements and was not in breach of any agreement provisions. If the Company had breached any of these provisions it could have been required to settle its obligations under the agreements at their aggregate termination value of \$7.1 million.

Note 9— Commitments and Contingencies

Litigation

In the ordinary course of business, the Company may become subject to litigation or claims. There are no material legal proceedings pending or known to be contemplated against us.

Environmental Matters

In connection with the ownership and operation of real estate, the Company may potentially be liable for costs and damages related to environmental matters. The Company has not been notified by any governmental authority of any non-compliance, liability or other claim, and the Company is not aware of any other environmental condition that it

believes will have a material adverse effect on the consolidated results of operations.

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Note 10 - Related-Party Transactions and Arrangements

Fees paid in connection with common stock offering

The Company's affiliated Dealer Manager receives selling commissions of 7% of the gross offering proceeds from the sale of the Company's common stock (as well as sales of long-term notes and exchange transactions) before reallocation of commissions earned by participating broker-dealers. The Dealer Manager, reallocates 100% of commissions earned to participating broker-dealers. In addition, the Dealer Manager receives Dealer Manager fees of 3% of the gross offering proceeds before reallocation to participating broker-dealers. The Dealer Manager may reallocate all or a portion of its dealer manager fee to participating broker-dealers.

No selling commissions or dealer-manager fees are paid to the Dealer Manager with respect to shares issued under the DRIP.

The following table details the results of such activities related to the Dealer Manager (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Total commissions paid to Dealer Manager	\$ 11,208	\$ 4,623	\$ 25,423	\$ 8,332
Less:				
Commissions to participating broker dealers	(7,397)	(3,178)	(17,201)	(5,676)
Reallowance to participating broker dealers	(985)	(304)	(2,324)	(510)
Net to affiliated Dealer Manager (1)	\$ 2,826	\$ 1,141	\$ 5,898	\$ 2,146

(1) Dealer Manager is responsible for commission payments due to their employees as well as its general overhead and various selling related expenses.

The Company will reimburse the Advisor up to 1.5% of its gross offering proceeds. The following table details the results of such activities related to organizational and offering costs reimbursed to the Advisor (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Organizational and offering expense reimbursements	\$ 1,078	\$ 1,821	\$ 3,881	\$ 3,917

Fees Paid in Connection With the Operations of the Company

The Advisor receives an acquisition fee of 1.0% of the contract purchase price of each acquired property and is reimbursed for acquisition costs incurred in the process of acquiring properties, but not to exceed 0.5% of the contract purchase price. In no event will the total of all acquisition and advisory fees and acquisition expenses payable with respect to a particular investment exceed 4% of the contract purchase price.

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Note 10 - Related-Party Transactions and Arrangements (continued)

The Company will pay the Advisor a yearly fee of up to 1% of the contract purchase price of each property plus costs and expenses incurred by the Advisor in providing asset management services, payable semiannually, based on assets held by us on the measurement date, adjusted for appropriate closing dates for individual property acquisitions.

For the management and leasing of its properties, the Company will pay to an affiliate of its Advisor, a property management fee of (a) 2% of gross revenues from its single tenant properties and (b) 4% of gross revenues from its multi-tenant properties, plus, in each case, market-based leasing commissions applicable to the geographic location of the property. The Company also will reimburse the affiliate costs of managing the properties. The affiliate may also receive a fee for the initial leasing of newly constructed properties, which would generally equal one month's rent. In the unlikely event that the affiliate assists a tenant with tenant improvements, a separate fee may be charged to, and payable by the Company. This fee will not exceed 5% of the cost of the tenant improvements. The aggregate of all property management and leasing fees paid to its affiliates plus all payments to third parties for such fees will not exceed the amount that other nonaffiliated management and leasing companies generally charge for similar services in the same geographic location as determined by a survey of brokers and agents in such area. No such fees were incurred or paid for the three and nine months ended September 30, 2010 and 2009.

The Company will reimburse its Advisor's costs of providing administrative services, subject to the limitation that it will not reimburse its Advisor for any amount by which its operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of (a) 2% of average invested assets, or (b) 25% of net income other than any additions to reserves for depreciation, bad debt or other similar noncash reserves and excluding any gain from the sale of assets for that period. Additionally, the Company will not reimburse the Advisor for personnel costs in connection with services for which the Advisor receives acquisition fees or real estate commissions. No such fees were incurred or paid for the three and nine months ended September 30, 2010 and 2009.

If the Company's Advisor provides services in connection with the origination or refinancing of any debt that the Company obtains, and use to acquire properties or to make other permitted investments, or that is assumed, directly or indirectly, in connection with the acquisition of properties, the Company will pay the Advisor a financing coordination fee equal to 1% of the amount available and/or outstanding under such financing, subject to certain limitations.

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Note 10 - Related-Party Transactions and Arrangements (continued)

The following table details amounts paid and reimbursed to affiliates as well as amounts contractually due to the Advisor which were forgiven in connection with the operations related services described above (amounts in thousands):

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	Paid	Forgiven	Paid	Forgiven
One-time fees:				
Acquisition fees and related cost reimbursements	\$ 2,591	\$ —	\$ 5,567	\$ —
Financing coordination fees	1,009	—	1,775	—
Other cost reimbursements	—	—	82	—
Ongoing fees:				
Asset management fees	500	927	850	2,595
Property management and leasing fees	—	222	—	536
Total Operations Fees and reimbursements	\$ 4,100	\$ 1,149	\$ 8,274	\$ 3,131

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Paid	Forgiven	Paid	Forgiven
One-time fees:				
Acquisition fees and related cost reimbursements	\$ 743	\$ —	\$ 743	\$ —
Financing coordination fees	412	—	412	—
Ongoing fees:				
Asset management fees	70	414	70	1,185
Property management and leasing fees	—	70	—	179
Total Operations Fees and reimbursements	\$ 1,225	\$ 484	\$ 1,225	\$ 1,364

In accordance with the asset management fee agreement, \$3.3 million and \$1.6 million was prepaid to the Advisor at September 30, 2010 and December 31, 2009, respectively.

Fees Paid in Connection With the Liquidation or listing of the Company's Real Estate Assets

The Company will pay a brokerage commission on the sale of property, not to exceed the lesser of one-half of reasonable, customary and competitive real estate commission or 3% of the contract price for property sold (inclusive of any commission paid to outside brokers), in each case, payable to the Advisor if the Advisor or its affiliates, as determined by a majority of the independent directors, provided a substantial amount of services in connection with the sale. Fees paid to the Advisor for the three and nine months ended September 30, 2010 were \$85 thousand. No such fees were paid for the three and nine months ended September 30, 2009.

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Note 10 — Related-Party Transactions and Arrangements (continued)

The Company will pay a subordinated participation in the net sales proceeds of the sale of real estate assets of 15% of remaining net sale proceeds after return of capital contributions plus payment to investors of a 6% cumulative, non-compounded return on the capital contributed by investors. The Company can not assure that it will provide this 6% return but the Advisor will not be entitled to the subordinated participation in net sale proceeds unless its investors have received a 6% cumulative non-compounded return on their capital contributions. No such fees were incurred or paid for the three and nine months ended September 30, 2010 or 2009.

The Company will pay a subordinated incentive listing fee of 15% of the amount by which the adjusted market value of real estate assets plus distributions exceeds the aggregate capital contributed by investors plus an amount equal to an 6% cumulative, non-compounded annual return to investors. The Company cannot assure that it will provide this 6% return but the Advisor will not be entitled to the subordinated incentive listing fee unless its investors have received a 6% cumulative non-compounded return on their capital contributions.

Financing

The OP entered into an agreement with the principals of the Advisor whereby the OP can obtain up to \$10.0 million of bridge equity from the principals from time to time as needed to provide short-term bridge equity for property acquisitions or for general working capital purposes. Such bridge equity advances need to be satisfied within a one year period and will accrue a yield of 8%. There were no amounts outstanding under this facility as of September 30, 2010 and 2009. There was no interest expense for this facility during 2010. During the three and nine months ended September 30, 2009, the Company incurred related party interest expense of \$0.1 million on this facility.

The Company entered into an unsecured bridge equity facility with a related party, American Realty Capital Equity Bridge, LLC ("ARC Bridge"), whereby the Company could obtain bridge equity of up to \$10.0 million from time-to-time as needed to provide short-term bridge equity relating to property acquisitions and for general working capital purposes. ARC Bridge was a 50% joint venture between the Sponsor and an unrelated third party. Bridge equity investments from this facility accrued a yield at an annual rate of 30 day LIBOR plus 5% with a floor of 8%. The bridge equity advances relating to the PNC Bank locations, Rite Aid portfolio acquisitions and a distribution facility from FedEx Corp. were \$1.3 million, \$5.3 million and \$9.6 million, respectively. The related yield on such short-term bridge equity was 8.11%. The Company incurred interest expense on these advances of \$0.1 million for the three and nine months ended September 30, 2009, respectively. As of December 31, 2009, this facility was repaid in full and the agreement was terminated.

Note 11 — Economic Dependency

Under various agreements, the Company has engaged or will engage the Advisor and its affiliates to provide certain services that are essential to the Company, including asset management services, supervision of the management and leasing of properties owned by the Company, asset acquisition and disposition decisions, the sale of shares of the Company's common stock available for issue, as well as other administrative responsibilities for the Company including accounting services and investor relations.

As a result of these relationships, the Company is dependent upon the Advisor and its affiliates. In the event that these companies were unable to provide the Company with the respective services, the Company would be required to find alternative providers of these services.

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(Unaudited)

Note 12 — Share-Based Compensation

Stock Option Plan

The Company has a stock option plan (the “Plan”) which authorizes the grant of nonqualified stock options to the Company’s independent directors, subject to the absolute discretion of the board of directors and the applicable limitations of the Plan. The Company intends to grant options under the Plan to each qualifying director annually. The exercise price for all stock options granted under the Plan will be fixed at \$10.00 per share until the termination of the Company’s initial public offering, and thereafter the exercise price for stock options granted to independent directors will be equal to the fair market value of a share on the last business day preceding the annual meeting of stockholders. As of September 30, 2010, the Company had granted options to purchase 27,000 shares at \$10.00 per share, each with a two year vesting period and an expiration of 10 years. A total of 1,000,000 shares have been authorized and reserved for issuance under the Plan.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following assumptions were used in the determination of fair value: expected life of 10 years, risk free rate of 3.83%, volatility of 5.0% and distribution yield of 6.5%.

During each of the nine months ended September 30, 2010 and 2009, 9,000 shares were issued and none were forfeited or exercised. As of September 30, 2010, vested options to purchase 9,000 shares and unvested options to purchase 18,000 shares remained outstanding, with a weighted average contractual remaining life of 8.5 years. The total compensation charge relating to these option grants is immaterial.

Restricted Share Plan

On January 22, 2010, the Board of Directors adopted an employee and director incentive restricted share plan (the “RSP”). The RSP provides for the automatic grant of 3,000 restricted shares of common stock to each of the independent directors, without any further action by the Company’s board of directors or the stockholders, on the date of each annual stockholder’s meeting. Restricted stock issued to independent directors will vest over a five-year period following the first anniversary of the date of grant in increments of 20% annually. The employee and director incentive restricted share plan provides the Company with the ability to grant awards of restricted shares to the Company’s directors, officers and employees (if the Company ever has employees), employees of the Advisor and its affiliates, employees of entities that provide services to the Company, directors of the Advisor or of entities that provide services to us, certain of its consultants and certain consultants to the Advisor and its affiliates or to entities that provide services to us. The total number of common shares reserved for issuance under the RSP is equal to 1.0% of its authorized shares.

Restricted share awards entitle the recipient to common shares from the Company under terms that provide for vesting over a specified period of time or upon attainment of pre-established performance objectives. Such awards would typically be forfeited with respect to the unvested shares upon the termination of the recipient’s employment or other relationship with the Company. Restricted shares may not, in general, be sold or otherwise transferred until restrictions are removed and the shares have vested. Holders of restricted shares may receive cash distributions prior

to the time that the restrictions on the restricted shares have lapsed. Any distributions payable in common shares shall be subject to the same restrictions as the underlying restricted shares. As of September 30, 2010, 9,000 shares had been issued to independent Directors under this plan at a fair value of \$10.00 per share. The fair value of the shares will be expensed ratably over the five-year vesting period. For the three and nine months ended September 30, 2010, expense of \$7 thousand was recorded for the director restricted shares. There were no restricted shares outstanding as of September 30, 2009.

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Note 12 — Share-Based Compensation (continued)

In June 2010, the Company's independent Directors approved and authorized the issuance of up to 1,500,000 common restricted shares to the Advisor equaling 1% of authorized shares under the primary offering, subject to certain terms and conditions. On September 13, 2010, the Advisor granted 1,400,000 restricted shares to key executive. Of the total shares granted, 50% vest over a five year period commencing with the two year anniversary of the grant date and remaining 50% vest only to the extent the Company's net asset value plus distributions paid to stockholders equals 106% of the original selling price of the Company's common stock. For the three and nine months ended September 30, 2010, \$70 thousand of expense was recorded for these restricted shares.

Note 13 — Net Loss Per Share

The following is a summary of the basic and diluted net loss per share computation for the three and nine months ended September 30, 2010 and 2009 (in thousands except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net loss attributable to American Realty Capital Trust, Inc.	\$ (74)	\$ (1,484)	\$ (1,453)	\$ (3,496)
Less: dividends paid on unvested restricted stock	(48)	—	(48)	—
	\$ (122)	\$ (1,484)	\$ (1,501)	\$ (3,496)
Weighted average common shares outstanding	36,122,160	6,639,111	26,182,878	3,791,302
Loss per share, basic and diluted	\$ (0.00)	\$ (0.22)	\$ (0.06)	\$ (0.92)

As of September 30, 2010, 27,000 stock options and 709,000 unvested restricted shares were outstanding which were not included in the calculation of diluted earnings per share since the inclusion is anti-dilutive.

Note 14 – Noncontrolling Interests

The Company has investment arrangements with unaffiliated third parties whereby the investor receives an ownership interest in the property and is entitled to receive a proportionate share of the net operating cash flow derived from the property. Upon disposition of the property, the investor will receive a proportionate share of the net proceeds from the sale of the property. The investor has no recourse to any other assets of the Company. Due to the nature of the Company's involvement with each of the arrangements described below and the significance of its investment in relation to the investment of the other interest holders the Company has determined that it is the primary beneficiary in each of these arrangements and therefore the entities related to these arrangements are consolidated with the Company's financial statements.

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Note 14 – Noncontrolling Interests (continued)

The following table details information related to investments made by noncontrolling interests as of September 30, 2010 (dollar amounts in thousands):

Property/Portfolio Name	No. of Buildings	Investment Date	Investment Amount	Ownership Percentage	Third Party Subject to Investment Agreement	Total Assets Subject to Investment	Total Liabilities Subject to Investment	Distributions	Distributions
								Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Walgreens	1	July 2009	\$ 1,200	44.0%	\$ 3,652	\$ 1,550	\$ 20	\$ 60	
		July 2009 to January 2010							
Fed Ex/PNC Bank	2	2010	2,567	49.0%	11,972	8,962	42	126	
		September 2009 to January 2010							
PNC Bank	1	2009	494	35.2%	3,493	2,360	9	26	
		January 2010 to March 2010							
CVS I	3	2010	3,050	49.0%	11,227	6,765	48	128	
		February 2010							
Rickett Benckiser	1	2010	2,500	14.6%	30,845	14,923	52	135	
FedEx III	1	April 2010	3,000	15.4%	33,608	15,000	64	114	
		June 2010 to September 2010							
BSFS II	6	2010	6,688	45.0%	12,858	—	72	72	
Total	15		\$ 19,499		\$ 107,655	\$ 49,560	\$ 307	\$ 661	

Note 15 — Subsequent Events

The Company has evaluated subsequent events through the filing of this Form 10-Q, and determined that there have not been any events that have occurred that would require adjustments to the disclosures to the consolidated financial statements except for the following transactions:

Acquisition of Real Estate Investments

The following table presents certain information about the properties that the Company acquired subsequent to September 30, 2010 (dollar amounts in thousands):

Seller / Property Name	Acquisition Date	No. of Buildings	Square Feet	Remaining Lease	Base Purchase	Capitalization Rate (3)	Net Operating	Purchase Price (5)
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		Term (1)		Price (2)		Income (4)		
Total portfolio – September 30, 2010		226	3,424,357	15.7	\$ 661,052	8.36%	\$ 55,252	\$ 666,174
Brown Shoe/Payless								
	October 2010	2	1,179,232	15.0	70,179	9.37%	6,573	70,179
St. Joseph's Mercy Medical								
	October 2010	3	46,706	13.3	10,021	7.64%	766	10,021
Advance Auto								
	November 2010	1	6,124	14.9	1,301	8.15%	106	1,301
Kum & Go II								
	November 2010	2	8,008	9.0	2,962	8.95%	265	2,962
Total portfolio – November 10, 2010		234	4,664,427	15.5	\$ 745,515	8.45%	\$ 62,962	\$ 750,637

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-
- (1) Remaining lease term in years as of November 10, 2010. If the portfolio has
- multiple locations with varying lease expirations, remaining lease term is calculated on a weighted-average basis.
- (2) Contract purchase price excluding acquisition related costs.
-
- (3) Net operating income divided by base purchase price.
-
- (4) Annualized rental income less property operating expenses, as applicable.
-
- (5) Base purchase for acquisitions prior to January 1, 2009 include capitalized
- acquisition related costs. Effective January 1, 2009, acquisition and transaction related costs are required to be expensed as incurred in accordance with generally accepted accounting principles.

Financing Arrangements

The following table presents certain information about financing arrangements that the Company entered into subsequent to September 30, 2010 (dollar amounts in thousands):

	Total Purchase Price	Mortgage Notes (1)	Effective Interest Rate	Leverage Ratio (2)
Total portfolio – September 30, 2010	\$ 666,174	\$ 285,668	5.92%	42.9%
Brown Shoe/Payless	70,179	28,200	4.92%	40.2%
St. Joseph’s Mercy Medical	10,021	—	—	—
Advance Auto	1,301	—	—	—
Kum & Go II	2,962	—	—	—
Less: amortization of principal	—	(185)	—	—
Total portfolio – November 10, 2010 (3)	\$ 750,637	\$ 313,683	5.83%	41.8%

-
- (1) Consists of first mortgage long-term debt only.
-
- (2) Mortgage debt divided by total purchase price.
-
- (3) Weighted-average, as applicable.
-

In October 2010, the Company received proceeds from an advance under one of its lines of credits in the amount of \$ 8.2 million in connection with the acquisition of the Brown Shoe/ Payless investment properties.

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Sources of Capital

As of October 31, 2010, the Company had issued 48.5 million shares of common stock, including shares issued under the DRIP. Total gross proceeds from these issuances were \$472.8 million. As of October 31, 2010, the aggregate value of all share issuances was \$477.4 million based on a per share value of \$10.00 (or \$9.50 per share for shares issued under the DRIP).

Total capital raised to date is as follows (amounts in thousands):

Source of Capital	Inception to September 30, 2010	October 1 to October 31, 2010	Total
Common shares, net of redemptions	\$ 422,174	\$ 50,600	\$ 472,774
Notes payable	12,790	—	12,790
Exchange proceeds, net (1)	17,423	6,506	23,929
Total	\$ 452,387	\$ 57,106	\$ 509,493

- (1) Includes amounts received by the Company in connection with transactions completed through its affiliate, American Realty Capital Exchange, LLC. Such transactions include joint ventures whereby unaffiliated third-party investors co-invested in investment properties that are majority owned and controlled by the Company. See Note 14 – Noncontrolling Interests.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying financial statements of American Realty Capital Trust, Inc. and the notes thereto. As used herein, the terms “we,” “our” and “us” refer to American Realty Capital Trust, Inc., a Maryland corporation, and, as required by context, American Realty Capital Operating Partnership, L.P., a Delaware limited partnership, which we refer to as the “OP” and to their subsidiaries. American Realty Capital Trust, Inc. is externally managed by the American Realty Capital Advisors, LLC (a Delaware limited liability company) or the “Advisor.”

Forward-Looking Statements

Certain statements included in this quarterly report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of American Realty Capital Trust, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as “may,” “will,” “seeks,” “anticipates,” “believes,” “estimates,” “expects,” “plans,” “intends,” or similar expressions. Actual results may differ materially from those contemplated by such forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, unless required by law.

Following are some of the risks and uncertainties, although not all risks and uncertainties, that could cause our actual results to differ materially from those presented in our forward-looking statements:

- Neither we nor our Advisor have a prior operating history and our Advisor does not have any experience operating a public company. This inexperience makes our future performance difficult to predict.
- All of our executive officers are also officers, managers and/or holders of a direct or indirect controlling interest in our Advisor, our dealer manager and other affiliated entities. As a result, our executive officers, our Advisor and its affiliates face conflicts of interest, including significant conflicts created by our Advisor's compensation arrangements with us and other investors advised by American Realty Capital affiliates and conflicts in allocating time among us and these other investors. These conflicts could result in unanticipated actions.
- Because investment opportunities that are suitable for us may also be suitable for other American Realty Capital-advised investors, our Advisor and its affiliates face conflicts of interest relating to the purchase of properties and such conflicts may not be resolved in our favor, meaning that we could invest in less attractive properties, which could reduce the investment return to our stockholders.
- If we raise substantially less than the maximum offering in our ongoing initial public offering, we may not be able to invest in a diverse portfolio of real estate assets and the value of an investment in us may vary more widely with the performance of specific assets.
-

While we are raising capital and investing the proceeds of our ongoing initial public offering, the high demand for the type of properties we desire to acquire may cause our distributions and the long-term returns of our investors to be lower than they otherwise would.

- We depend on tenants for our revenue, and, accordingly, our revenue is dependent upon the success and economic viability of our tenants.
- Increases in interest rates could increase the amount of our debt payments and limit our ability to pay distributions to our stockholders.

All forward-looking statements should be read in light of the risks identified in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC and the risks identified in this quarterly report.

Overview

We are a Maryland corporation that elected to be taxed as a real estate investment trust, or REIT, beginning with the taxable year ended December 31, 2008. On September 10, 2007, we filed our Registration Statement with the SEC to offer a minimum of 750,000 shares and a maximum of 150,000,000 shares of common stock for sale to the public. The SEC declared the registration statement effective on January 25, 2008, at which time we launched our ongoing initial public offering. On March 11, 2008, we broke escrow in our ongoing initial public offering and then commenced our real estate operations. As of September 30, 2010, we issued 43.4 million shares of common stock. Total gross proceeds from these issuances were \$422.2 million. As of September 30, 2010, the aggregate value of all share issuances and subscriptions outstanding was \$426.2 million based on a per share value of \$10.00 (or \$9.50 for shares issued under the distribution reinvestment plan, or DRIP). As of September 30, 2010, 159,680 shares of common stock had been redeemed under our stock repurchase program at a value of \$1.6 million and an additional 89,010 shares with a redemption value of \$0.9 million were accrued for redemption subsequent to September 30, 2010. We are dependent upon the net proceeds from the offering to conduct our proposed operations.

We intend to use the proceeds of our ongoing initial public offering to acquire and manage a diverse portfolio of real estate properties consisting primarily of freestanding, single-tenant properties net leased to investment grade and other creditworthy tenants throughout the United States and Puerto Rico. We plan to own substantially all of our assets and conduct our operations through our OP, of which we are the sole general partner. We have no paid employees. Our Advisor conducts our operations and manages our portfolio of real estate investments.

We intend to continue our strategy of acquiring freestanding, single tenant properties through sale-leaseback and marketed transactions with in-place leases that have a minimum of ten years remaining under the primary term. Such leases generally include renewal options. We typically fund our acquisitions with a combination of equity and debt and in certain cases we may use only equity capital or we may fund a portion of the purchase price of an acquisition through investments from third parties. We expect to arrange long-term financing on both a secured and unsecured fixed rate basis. We intend to continue to grow our existing relationships and develop new relationships throughout various markets we serve, which we expect will lead to further acquisition opportunities. We intend to have an overall leverage ratio as it relates to long-term secured mortgage financings of approximately 45% to 50%. As of September 30, 2010, our leverage ratio was 42.9%.

As of September 30, 2010, we owned 226 properties with 3.4 million square feet, 100% leased with a weighted average remaining lease term of 15.7 years. In constructing our portfolio, we are committed to diversification (industry, tenant and geography). As of September 30, 2010, rental revenues derived from investment grade tenants (rated BBB+ or better by Standards & Poor) approximated 78.3%. Of the percentage of Investment Grade Tenants as of September 30, 2010, 8.52% is attributable to annualized net operating income generated by 18 properties whose lease payments are guaranteed by Bridgestone Retail Operations, LLC. For business reasons we use the rating for the non-guarantor parent, Bridgestone Corporation (S&P BBB+ rated), as Bridgestone Retail, a wholly-owned subsidiary that makes up less than 50% of the parent's assets, is not rated and it does not qualify as an investment grade tenant. Our strategy encompasses receiving the majority of our revenue from investment grade tenants as we further acquire properties and enter into (or assume) long-term lease arrangements.

Real estate-related investments are higher-yield and higher-risk investments that our Advisor will actively manage, if we elect to acquire such investments. The real estate-related investments in which we may invest include: (i) mortgage loans; (ii) equity securities such as common stocks, preferred stocks and convertible preferred securities of real estate companies; (iii) debt securities, such as mortgage-backed securities, commercial mortgages, mortgage loan

participations and debt securities issued by other real estate companies; and (iv) certain types of illiquid securities, such as mezzanine loans and bridge loans. While we may invest in any of these real estate-related investments, our Advisor, with the support of our Board of Trustees, has elected to suspend all activities relating to acquiring real estate-related investments for an indefinite period based on the current adverse climate affecting the capital markets. Since our inception, we have not acquired any real estate-related investments.

Significant Accounting Estimates and Critical Accounting Policies

Set forth below is a summary of the significant accounting estimates and critical accounting policies that management believes are important to the preparation of our consolidated financial statements. Certain of our accounting estimates are particularly important for an understanding of our financial position and results of operations and require the application of significant judgment by our management. As a result, these estimates are subject to a degree of uncertainty. These significant accounting estimates include:

Revenue Recognition

Our revenues, which are derived primarily from rental income, include rents that each tenant pays in accordance with the terms of each lease reported on a straight-line basis over the initial term of the lease. Since many of our leases provide for rental increases at specified intervals, straight-line basis accounting requires us to record a receivable, and include in revenues, unbilled rent receivables that we will only receive if the tenant makes all rent payments required through the expiration of the initial term of the lease.

We continually review receivables related to rent and unbilled rent receivables and determine collectability by taking into consideration the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectability of a receivable is in doubt, we record an increase in our allowance for uncollectible accounts or record a direct write-off of the receivable in our consolidated statements of operations.

Investments in Real Estate

Investments in real estate are recorded at cost. Improvements and replacements are capitalized when they extend the useful life of the asset. Costs of repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of up to forty years for buildings and improvements, five to ten years for fixtures and improvements and the shorter of the useful life or the remaining lease term for tenant improvements and leasehold interests.

We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in real estate. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in real estate, we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

We are required to present the operations related to properties that have been sold or properties that are intended to be sold as discontinued operations in the statement of operations for all periods presented. Properties that are intended to be sold are to be designated as "held for sale" on the balance sheet.

Long-lived assets are carried at cost and evaluated for impairment when events or changes in circumstances indicate such an evaluation is warranted or when they are designated as held for sale. Valuation of real estate is considered a "critical accounting estimate" because the evaluation of impairment and the determination of fair values involve a number of management assumptions relating to future economic events that could materially affect the determination of the ultimate value, and therefore, the carrying amounts of our real estate. Additionally, decisions regarding when a property should be classified as held for sale are also highly subjective and require significant management judgment.

Events or changes in circumstances that could cause an evaluation for impairment include the following:

- a significant decrease in the market price of a long-lived asset;

- a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset; and
- a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset.

We review our portfolio on an on-going basis to evaluate the existence of any of the aforementioned events or changes in circumstances that would require us to test for recoverability. In general, our review of recoverability is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. These estimates consider factors such as expected future operating income, market and other applicable trends and residual value expected, as well as the effects of leasing demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. We are required to make subjective assessments as to whether there are impairments in the values of our investments in real estate. These assessments have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income.

Purchase Price Allocation

We allocate the purchase price of acquired properties to tangible and identifiable intangible assets acquired based on their respective fair values. Tangible assets include land, buildings, equipment and tenant improvements on an as-if vacant basis. We utilize various estimates, processes and information to determine the as-if vacant property value. Estimates of value are made using customary methods, including data from appraisals, comparable sales, discounted cash flow analysis and other methods. Identifiable intangible assets include amounts allocated to acquire leases for above- and below-market lease rates, the value of in-place leases, and the value of customer relationships.

Amounts allocated to land, buildings, equipment and fixtures are based on cost segregation studies performed by independent third-parties or on our analysis of comparable properties in our portfolio. Depreciation is computed using the straight-line method over the estimated lives of forty years for buildings, five to ten years for building equipment and fixtures, and the shorter of the useful life or the remaining lease term for tenant improvements.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be paid pursuant to the in-place leases and management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases. The aggregate value of intangible assets related to in-place leases is primarily the difference between the property valued with existing in-place leases adjusted to market rental rates and the property valued as if vacant. Factors considered by us in our

analysis of the in-place lease intangibles include an estimate of carrying costs during the expected lease-up period for each property, taking into account current market conditions and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up period, which typically ranges from six to 18 months. We also estimate costs to execute similar leases including leasing commissions, legal and other related expenses.

The aggregate value of intangible assets related to customer relationship is measured based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with the tenant. Characteristics considered by us in determining these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals, among other factors.

The value of in-place leases is amortized to expense over the initial term of the respective leases, which range primarily from 2 to 20 years. The value of customer relationship intangibles is amortized to expense over the initial term and any renewal periods in the respective leases, but in no event does the amortization period for intangible assets exceed the remaining depreciable life of the building. If a tenant terminates its lease, the unamortized portion of the in-place lease value and customer relationship intangibles is charged to expense.

In making estimates of fair values for purposes of allocating purchase price, we utilize a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. We also consider information obtained about each property as a result of our pre-acquisition due diligence, as well as subsequent marketing and leasing activities, in estimating the fair value of the tangible and intangible assets acquired and intangible liabilities assumed. The allocations presented in the accompanying consolidated balance sheets are substantially complete; however, there are certain items that we will finalize once we receive additional information. Accordingly, these allocations are subject to revision when final information is available, although we do not expect future revisions to have a significant impact on our financial position or results of operations.

Derivative Instruments

We may use derivative financial instruments to hedge all or a portion of the interest rate risk associated with our borrowings. The principal objective of such agreements is to minimize the risks and/or costs associated with our operating and financial structure as well as to hedge specific anticipated transactions.

We record 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, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of 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 designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or we elect not to apply hedge accounting.

Results of Operations

As of September 30, 2010, we owned 226 properties which are 100% leased, compared to 104 properties which were 100% leased at September 30, 2009, an increase of 117%. Accordingly, our results of operations for the three and nine months ended September 30, 2010, as compared to the three and nine months ended September 30, 2009, reflect significant increases in most categories.

Comparison of Three Months Ended September 30, 2010 and 2009

Rental Income

Rental income increased \$8.1 million to \$11.9 million for the three months ended September 30, 2010, compared to \$3.8 million for the three months ended September 30, 2009. The increase in rental income was driven by our acquisition of 122 net leased property subsequent to September 30, 2009 with total square footage of 2.4 million. These properties were acquired at an average 8.34% cap rate.

Asset Management Fees to Affiliate

Our Advisor is entitled to fees for the management of our properties as well as fees for purchases and sales of properties. The Advisor was paid \$0.5 million and \$70 thousand in asset management fees for the three months ended September 30, 2010 and 2009, respectively. For the three months ended September 30, 2010 and 2009, we would have incurred additional asset management fees of \$0.9 million and \$0.4 million, respectively, had they not been waived by our Advisor.

Property Management Fees to Affiliate

Our affiliated Property Manager has elected to waive the property management fees for the three months ended September 30, 2010 and 2009 in order to improve our working capital. Such fees represent amounts that had they not been forgiven, would have been paid to our Property Manager to manage and lease our properties, as applicable. For the three months ended September 30, 2010 and 2009, we would have incurred property management fees of \$0.2 million and \$70 thousand, respectively, had the fees not been waived by our Property Manager.

Acquisition and Transaction Related Costs

We incurred acquisition and transaction related costs of \$0.8 million on acquisitions with a total cost of \$151.8 million for the three months ended September 30, 2010. For the three months ended September 30, 2009 we incurred acquisition and transaction costs of \$0.3 million on acquisitions with a total cost of \$76.3 million. Acquisition and transaction costs are mainly comprised of legal costs, deed transfer costs and other costs related to real estate purchase transactions.

General and Administrative Expenses

General and administrative expenses increased \$0.2 million to \$0.3 million for the three months ended September 30, 2010, compared to \$0.1 million for the three months ended September 30, 2009. The majority of the general and administrative expenses for the three months ended September 30, 2010 included \$69 thousand of insurance expense, \$39 thousand of professional fees, and \$95 thousand of fees to our board of directors and stock compensation expense. The increase from the three months ended September 30, 2009 is mainly due to expenses to support our larger real estate portfolio.

Depreciation and Amortization Expense

Depreciation and amortization expense increased \$3.6 million to \$5.7 million for the three months ended September 30, 2010, compared to \$2.1 million for the three months ended September 30, 2009. The increase in depreciation and amortization expense was the result of our acquisition of real estate during 2009 and in 2010. These properties were placed into service when acquired and are being depreciated for the period held.

Interest Expense

Interest expense increased \$2.2 million to \$4.7 million for the three months ended September 30, 2010, compared to \$2.5 million for the three months ended September 30, 2009. The increase in interest expense was the mainly the result of a higher debt balance due to the financing of a portion of our property acquisitions. The first mortgage debt as of September 30, 2010 and 2009 was \$285.7 million and \$137.3 million, respectively, an increase of 108%. We view these secured financing sources as an efficient and accretive means to acquire properties. During the period, we continue to lower our overall use of long-term secured mortgage financings. Our leverage ratio (mortgage debt divided by the total purchase price of real estate investments) was 42.9% as of the most recently completed quarter end compared to 59.3% as of September 30, 2009.

Our interest expense in future periods will vary based on our level of future borrowings, which will depend on the level of proceeds raised in the Offering, the cost of borrowings, and the opportunity to acquire real estate assets which meet our investment objectives.

Interest Income

Interest income increased to \$35 thousand for the three months ended September 30, 2010 from \$18 thousand for the three months ended September 30, 2009. Interest income relates to cash on deposit in short-term investment accounts.

Gains (Losses) on Derivative Instruments

Included in other income was a loss in the fair value of derivative instruments of \$0.2 million for the three months ended September 30, 2010, compared to a loss of \$0.2 million for the three months ended September 30, 2009. These losses and gains are related to changing market interest rates. Such activity is unrealized and relates to non-cash, mark-to-market adjustments required under the rules applicable to accounting for derivatives.

Gains on Disposition of Property

A gain on the disposition of property of \$143 thousand for the three months ended September 30, 2010, was realized from the sale of a PNC property in September 2010.

Gains on Sales to Noncontrolling Interest Holders, Net

Net gains on sales to noncontrolling interest holders of \$67 thousand for the three months ended September 30, 2010, is comprised of the excess of proceeds received over the amortized basis of the property sold in joint venture and other agreements with third parties net of related federal and state income tax effects.

Comparison of Nine Months Ended September 30, 2010 and 2009

Rental Income

Rental income increased \$19.1 million to \$28.7 million for the nine months ended September 30, 2010, compared to \$9.6 million for the nine months ended September 30, 2009. The increase in rental income was driven by our acquisition of \$431.4 million of net leased property subsequent to September 30, 2009 with total square footage of 2.4 million. These properties were acquired at an average 8.59% cap rate.

Asset Management Fees to Affiliate

Our Advisor is entitled to fees for the management of our properties as well as fees for purchases and sales of properties. The Advisor was paid \$0.9 million in asset management for the nine months ended September 30, 2010 and paid \$70 thousand for the nine months ended September 30, 2009. For the nine months ended September 30, 2010 and 2009, we would have incurred additional asset management fees of \$2.6 million and \$1.2 million, respectively, had they not been waived by our Advisor.

Property Management Fees to Affiliate

Our affiliated Property Manager has elected to waive the property management fees for the nine months ended September 30, 2010 and 2009 in order to improve our working capital. Such fees represent amounts that had they not

been forgiven, would have been paid to our Property Manager to manage and lease our properties. For the nine months ended September 30, 2010 and 2009, we would have incurred property management fees of \$0.5 million and \$0.2 million, respectively, had the fees not been waived by our Property Manager.

Acquisition and Transaction Related Costs

We incurred acquisition and transaction related costs of \$1.8 million on acquisitions with a total cost of \$334.0 million for the nine months ended September 30, 2010. For the nine months ended September 30, 2009 we incurred acquisition and transaction costs of \$0.3 million on acquisitions with a total cost of \$76.3 million. Acquisition and transaction costs are mainly comprised of legal costs, deed transfer costs and other costs related to real estate purchase transactions.

General and Administrative Expenses

General and administrative expenses increased \$0.5 million to \$0.8 million for the nine months ended September 30, 2010, compared to \$0.3 million for the nine months ended September 30, 2009. The majority of the general and administrative expenses for the nine months ended September 30, 2010 included \$196 thousand of insurance expense, \$277 thousand of professional fees, \$147 thousand of compensation to the board of directors and restricted stock grant expense and \$90 thousand of taxes. The increase from the nine months ended September 30, 2009 is mainly due to expenses to support our larger real estate portfolio.

Depreciation and Amortization Expense

Depreciation and amortization expense increased \$8.7 million to \$14.2 million for the nine months ended September 30, 2010, compared to \$5.5 million for the nine months ended September 30, 2009. The increase in depreciation and amortization expense was the result of our acquisition of real estate during 2009 and in 2010. These properties were placed into service when acquired and are being depreciated for the period held.

Interest Expense

Interest expense increased \$5.2 million to \$12.5 million for the nine months ended September 30, 2010, compared to \$7.3 million for the nine months ended September 30, 2009. The increase in interest expense was the mainly the result of a higher debt balance due to the financing of a portion of our property acquisitions. The first mortgage debt as of September 30, 2010 and 2009 was \$285.7 million and \$137.3 million, respectively, an increase of 108%. We view these secured financing sources as an efficient and accretive means to acquire properties. During the period, we continue to lower our overall use of long-term secured mortgage financings. Our leverage ratio (mortgage debt divided by the total purchase price of real estate investments) was 42.9% as of the most recently completed quarter end compared to 59.3% as of September 30, 2009.

Our interest expense in future periods will vary based on our level of future borrowings, which will depend on the level of proceeds raised in the Offering, the cost of borrowings, and the opportunity to acquire real estate assets which meet our investment objectives.

Interest Income

Interest income increased to \$67 thousand for the nine months ended September 30, 2010 from \$22 thousand for the nine months ended September 30, 2009. Interest income relates to cash on deposit in short-term investment accounts.

Gains (losses) on Derivative Instruments

Included in other income was a loss in the fair value of derivative instruments of \$0.6 million for the nine months ended September 30, 2010, compared to a gain of \$0.4 million for the nine months ended September 30, 2009. These

losses and gains are related to changing market interest rates. Such activity is unrealized and relates to non-cash, mark-to-market adjustments required under the rules applicable to accounting for derivatives.

Gains on Disposition of Property

A gain on the disposition of property of \$143 thousand for the nine months ended September 30, 2010, was realized from the sale of a PNC property in September 2010.

Gains on Sales to Noncontrolling Interest Holders, Net

Net gains on sales to noncontrolling interest holders of \$0.4 million for the nine months ended September 30, 2010, is comprised of the excess of proceeds received over the amortized costs of the property sold in joint venture and other agreements with third parties net of related federal and state income tax effects.

Funds from Operations and Modified Funds from Operations

We consider funds from operations (“FFO”) a useful indicator of the performance of a REIT. Because FFO calculations exclude such factors as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates), they facilitate comparisons of operating performance between periods and between other REITs in our peer group. Accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictability over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentations, provide a more complete understanding of our performance relative to our peers and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities. Other REITs may not define FFO in accordance with the current National Association of Real Estate Investment Trust’s (“NAREIT”) definition (as we do) or may interpret the current NAREIT definition differently than we do. Consequently, our presentation of FFO may not be comparable to other similarly titled measures presented by other REITs.

We believe that modified funds from operations (“MFFO”) is helpful to investors as a measure of operating performance because it excludes charges that management considers more reflective of investing activities or non-operating valuation changes. By providing FFO and MFFO, we present information that assists investors and analysts in aligning their analysis with management’s analysis of long-term operating activities. We believe fluctuations in MFFO are indicative of changes in operating activities and provide comparability in evaluating our performance over time and as compared to other real estate companies that may not be affected by impairments, write-offs of capitalized costs or have acquisition activities. As explained below, management’s evaluation of our operating performance excludes the items considered in the calculation of MFFO based on the following economic considerations:

- Acquisition-related costs. In evaluating investments in real estate, management’s investment models and analysis differentiate costs to acquire the investment from the operations derived from the investment. Prior to 2009, acquisition costs for these types of investments were capitalized; however beginning in 2009 acquisition costs related to business combinations are expensed. We believe by excluding expensed acquisition costs, MFFO provides useful supplemental information that is comparable with other companies that do not currently engage in acquisition activities and is consistent with management’s analysis of the investing and operating performance of our properties.
- Other infrequent charges not related to the operating performance or our properties. Impairment charges, write-offs of previously capitalized assets such as costs associated with financing activities, certain non-cash charges and other infrequent charges, if any, may be excluded from MFFO if we believe these charges are not useful in the evaluation of our operating performance. An impairment charge represents a downward adjustment to the carrying amount of a long-lived asset to reflect the current valuation of the asset even when the asset is intended to be held long-term. Such adjustment, when properly recognized under GAAP, may lag the underlying consequences

related to rental rates, occupancy and other operating performance trends. The valuation is also based, in part, on the impact of current market fluctuations and estimates of future capital requirements and long-term operating performance that may not be directly attributable to current operating performance. Other charges such as the write-off of capitalized financing costs upon the early disposition of a debt obligation or other non recurring charges are adjustments excluded from MFFO because we believe that MFFO provides useful supplemental information by focusing on the changes in our operating fundamentals rather than on market valuation changes or other infrequent events not related to our normal operations.

FFO and MFFO are non-GAAP financial measures and do not represent net income as defined by GAAP. FFO and MFFO do not represent cash flows from operations as defined by GAAP, are not indicative of cash available to fund all cash flow needs and liquidity, including our ability to pay distributions and should not be considered as an alternative to net income, as determined in accordance with GAAP, for purposes of evaluating our operating performance.

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Our calculation of FFO, which we believe is consistent with the calculation of FFO as defined by NAREIT, and MFFO is presented in the following table for the three and nine months ended September 30, 2010 and 2009 (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net loss	\$ (74)	\$ (1,484)	\$ (1,453)	\$ (3,496)
Add:				
Depreciation of real estate assets	4,552	1,628	11,355	4,318
Amortization of intangible lease assets	1,159	434	2,822	1,131
Amortization of below-market lease liabilities	(78)	(79)	(235)	(235)
Fair value adjustment (1)	177	195	568	(354)
Gain on disposition of property	(143)	—	(143)	—
Noncontrolling interest adjustment (2)	(292)	(88)	(682)	(88)
Gains on sales to noncontrolling interest holders, net	(67)	—	(419)	—
FFO	5,234	606	11,813	1,276
Acquisition and transaction related costs	785	347	1,766	347
Modified FFO	\$ 6,019	\$ 953	\$ 13,579	\$ 1,623
Distributions paid (3)(4)	5,681	883	12,753	1,514
Modified FFO coverage ratio	105.9%	107.9%	106.5%	107.2%
Modified FFO payout ratio	94.4%	92.7%	93.9%	93.3%

(1) This adjustment represents a non-cash fair value adjustment relating to the use of hedging our debt yield. It is the Companies general strategy to fix its variable rate debt to mitigate against interest rate volatility. The Company excludes this non-cash fair value adjustment relating to its hedging activities from its FFO calculation.

(2) Amounts represent noncontrolling interest portion of depreciation of real estate assets, amortization of intangible lease assets and fair value adjustments.

(3) Includes a special dividend of \$0.7 million paid in January 2010.

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(4) Includes the value of common shares issued under the DRIP.

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Cash Flows for the Nine Months Ended September 30, 2010

During the nine months ended September 30, 2010, net cash provided by operating activities was \$11.2 million. The level of cash flows provided by operating activities is affected by both the timing of interest payments and amount of borrowings outstanding during the period. It is also affected by the receipt of scheduled rent payments. Prepaid expenses and other assets increased by \$4.1 million principally resulting from the prepayment of \$1.7 million of asset

management, and straight line rent adjustments of \$1.7 million incurred during the nine months ended September 30, 2010. Deferred rent increased by \$0.2 million and accounts payable increased by \$2.0 million.

Net cash used in investing activities during the nine months ended September 30, 2010, was \$337.5 million principally relating to acquisitions completed in 2010.

Net cash provided by financing activities totaled approximately \$325.7 million during the nine months ended September 30, 2010. Such amount consisted primarily of \$246.0 million from issuance of common stock and the net proceeds from mortgage notes payable of \$105.4 million and contributions from noncontrolling interest holders of \$14.0 million, partially offset by the repayment of short-term bridge funds and notes payable of \$15.9 million and \$3.5 million, respectively, distributions to common stockholders of \$12.7 million, payments of deferred financing costs of \$4.2 million, payments for common stock redemptions of \$2.5 million and distributions to noncontrolling interest holders of \$0.7 million.

Cash paid for interest during the nine months ended September 30, 2010 was \$14.5 million.

Cash Flows for the Nine Months Ended September 30, 2009

During the nine months ended September 30, 2009, net cash used in operating activities was \$3.5 million. Prepaid expenses and other assets increased by \$2.8 million principally resulting from the acquisition of \$0.6 million of non-real estate investment furniture and fixtures and the prepayment of \$1.1 million of asset management fees and straightline rent adjustments of \$0.6 million. Accounts payable and accrued expenses decreased by \$0.8 million, the majority of which relates to professional fees, accrued interest and finance coordination fees. Due to affiliates decreased by \$2.0 million during the nine months ended September 30, 2009.

Net cash used in investing activities during the nine months ended September 30, 2009, was \$76.3 million, principally relating to acquisition costs completed during the third quarter of 2009.

Net cash provided by financing activities totaled \$87.6 million during the nine months ended September 30, 2009. Such amount consisted primarily of \$65.1 million from issuance of common stock, proceeds from mortgage notes payable of \$25.3 million, proceeds from short-term bridge funds of \$15.9 million and net proceeds from long-term notes payable of \$11.9 million. Cash of \$0.9 million was used for distributions to shareholders.

Cash paid for interest during the nine months ended September 30, 2009 was \$7.4 million.

Liquidity and Capital Resources

Our principal demands for funds will continue to be for property acquisitions, either directly or through investment interests, for the payment of operating expenses, distributions to our investors, repurchases under our share repurchase plan ("SRP"), and for the payment of interest on our outstanding indebtedness. Generally, cash needs for property acquisitions will be met through proceeds from the sale of common stock through our public offering and mortgage financing. We may also from time to time enter into other agreements with third parties where by third parties will make equity investments in specific properties or groups of properties that we acquire.

We expect to meet our future short-term operating liquidity requirements through a combination of net cash provided by our current property operations and the operations of properties to be acquired in the future and proceeds from the sale of common stock. Management expects that in the future, as our portfolio matures, our properties will generate sufficient cash flow to cover all operating expenses and the payment of a monthly distribution. The majority of our long-term, triple net leases contain contractual rent escalations during the primary term of the lease. Other potential future sources of capital include proceeds from secured or unsecured financings from banks or other lenders, proceeds from private offerings, proceeds from the sale of properties and undistributed funds from operations.

We expect to continue to raise capital through the sale of our common stock and to utilize the net proceeds from the sale of our common stock and proceeds from secured financings to complete future property acquisitions. As of September 30, 2010, we issued 43.4 million shares of common stock. Total gross proceeds from these issuances were \$422.2 million. As of September 30, 2010, the aggregate value of all share issuances and subscriptions outstanding was \$426.2 million based on a per share value of \$10.00 (or \$9.50 for shares issued under the distribution reinvestment plan, or DRIP). As of September 30, 2010 an additional 106.7 million shares were available for issuance under the current registration statement and an additional 24.2 million shares were available to be issued under the DRIP.

On August 5, 2010, the Company filed a registration statement on Form S-11 to register \$32.5 millions shares of common stock in connection with the follow on offering to its initial public offering. The initial public offering was originally set to expire on January 25, 2011, three years after its effective date. However, as permitted by Rule 415 of the Securities Act, the Company will now continue its initial public offering until the earlier of July 24, 2011 or the date that the SEC declares the registration statement for the follow on offering effective. Total capital raised under the current registration and follow on offering will not exceed \$1.5 billion.

At September 30, 2010, we have available a \$10.0 million revolving line of credit unsecured bridge facility with an affiliated entity. There were no amounts outstanding under this facility at September 30, 2010 or December 31, 2009. There are no unused borrowing fees associated with this facility.

On July 27, 2010, we entered into a credit agreement with Capital One, N.A. to obtain a secured revolving credit facility in an aggregate maximum principal amount of \$30 million. The proceeds of loans made under the credit agreement will be used to finance the acquisition of net leased, investment or non-investment grade properties. The initial term of the credit agreement is 30 months, which may be extended by 12 months, subject to satisfaction of certain conditions, including payment of an extension fee.

Any loan made under the credit agreement shall bear floating interest at per annum rates equal to either one month LIBOR plus 3.25% or three month LIBOR plus 3.25%, at our sole option. In the event of a default, Capital One has the right to terminate its obligations under the credit agreement, including the funding of future loans, and to accelerate the payment on any unpaid principal amount of all outstanding loans. The line of credit requires a 0.25% non-usage fee on the unused balance. In October 2010, we received proceeds from an advance under this facility to finance a portion of the purchase price of a real estate acquisition in the same month.

On August 5, 2010, we entered into a credit agreement with U.S. Bank, N.A. to obtain a secured revolving credit facility in an aggregate maximum principal amount of \$20 million, which shall be increased to \$30 million six months after closing. The proceeds of loans made under the credit agreement will be used to finance the acquisition of net leased, investment or non-investment grade properties. The initial term of the credit agreement is 24 months, with a one-time extension option of 12 months, subject to satisfaction of certain conditions, including payment of an extension fee.

Any loan made under the credit agreement shall bear floating interest at a per annum rate equal to one month LIBOR plus 3.25%. In the event of a default, U.S. Bank has the right to suspend the funding of future loans and to accelerate the payment on any unpaid principal amount of the outstanding loans. We intend to collateralize the line of credit with certain properties which are currently owned or will be acquired. The Company has not yet drawn on the line of credit. The line of credit requires a 0.25% non-usage fee on the unused balance.

We must collateralized the Capital One and U.S. Bank lines of credit with certain of our properties in addition to meeting certain minimum cash deposit requirements.

Acquisitions

Our Advisor evaluates potential acquisitions of real estate and real estate related assets and engages in negotiations with sellers and borrowers on our behalf. Investors should be aware that after a purchase contract is executed that contains specific terms the property will not be purchased until the successful completion of due diligence and negotiation of final binding agreements. During this period, we may decide to temporarily invest any unused proceeds from the Offering in certain investments that could yield lower returns than the properties. These lower returns may affect our ability to make distributions.

Distributions

The amount of distributions payable to our stockholders is determined by our board of directors and is dependent on a number of factors, including funds available for distribution, financial condition, capital expenditure requirements, as applicable and annual distribution requirements needed to qualify and maintain our status as a REIT under the Internal Revenue Code (the “Code”). Operating cash flows are expected to increase as additional properties are acquired in our investment portfolio.

In February 2008, the board of directors declared a distribution for each monthly period commencing 30 days subsequent to acquiring our initial portfolio of real estate investments. The first monthly distribution was paid in April 2008. The distribution is calculated based on stockholders of record each day during the applicable period at a rate that, if paid each day for a 365-day period, would equal a specified annualized rate based on a share price of \$10.00. The initial annualized rate was 6.5% based on the share price of \$10.00. On November 5, 2008, the board of directors approved an increase in its annual cash distribution from \$0.65 to \$0.67 per share. Based on a \$10.00 share price, this 20 basis point increase, effective January 2, 2009, resulted in an annualized distribution rate of 6.7%. Effective April 1, 2010 our daily distribution rate increased by another 30 basis points, resulting in an annualized distribution rate of 7.0%.

The Company, our board of directors and Advisor share a similar philosophy with respect to paying our distribution. The distribution should principally be derived from cash flows generated from real estate operations. During the nine months ended September 30, 2010 and 2009, distributions paid totaled \$12.8 million and \$0.9 million, respectively, inclusive of \$5.7 million and \$0.6 million, respectively, of common shares issued under the DRIP. In order to improve our operating cash flows and our ability to pay dividends from operating cash flows, our related party Advisor agreed to waive certain fees including asset management and property management fees. See Note 10 – Related Party transactions in the notes to the consolidated financial statements contained elsewhere in this report for more information on fees that were forgiven by our Advisor. The fees that were waived relating to the activity during the nine months ended September 30, 2010 and 2009 are not deferrals and accordingly, will not be paid by the Company. As our real estate portfolio matures, we expect cash flows from operations to cover a more significant portion of our dividend distributions and over time to cover the entire distribution. As the cash flows from operations become more significant our Advisor may discontinue its past practice of forgiving fees and may charge the entire fee in accordance with our agreements with the Advisor.

Loan Obligations

The payment terms of our loan obligations vary. In general, only interest amounts are payable monthly with all unpaid principal and interest due at maturity. Some of our loan agreements stipulate that we comply with specific reporting and financial covenants mainly related to debt coverage ratios and loan to value ratios. Each loan that has these requirements has specific ratio thresholds that must be met. As of September 30, 2010, we were in compliance with the debt covenants under our loan agreements.

Our Advisor may, with approval from our independent board of directors, seek to borrow short-term capital that, combined with secured mortgage financing, exceeds our targeted leverage ratio. Such short-term borrowings may be obtained from third-parties on a case-by-case basis as acquisition opportunities present themselves simultaneous with our capital raising efforts. We view the use of short-term borrowings as an efficient and accretive means of acquiring real estate in advance of raising equity capital. Accordingly, we can take advantage of buying opportunities as we expand our fund raising activities. As additional equity capital is obtained, these short-term borrowings will be repaid. Our leverage ratio approximated 42.9% (secured mortgage notes payable as a percentage of total real estate investments, at cost) as of September 30, 2010.

In addition as of September 30, 2010 we have an unused short-term equity line available to us from a related party entity that allows us to draw a maximum of \$10.0 million, and two additional lines of credit that would allow us to draw an additional \$41.8 million if certain requirements are met, net of an outstanding advance under one of these facilities subsequent to September 30, 2010.

Other Obligations

Our board of directors has adopted a share repurchase program (“SRP”) that enables our stockholders to sell their shares to us under limited circumstances. At the time a shareholder requests redemption, we may, subject to certain conditions, redeem the shares presented for repurchase for cash to the extent we have sufficient funds available to fund such purchase. As of September 30, 2010, 159,680 shares of common stock had been redeemed under our share repurchase program at a value of \$1.6 million and an additional 89,010 shares with a value redemption value of \$0.9 million were accrued for redemption subsequent to September 30, 2010.

As of September 30, 2010, we had cash and cash equivalents of \$4.4 million, which we expect to be used primarily to invest in additional real estate as well as pay debt service, operating expenses and stockholder distributions.

Contractual Obligations

The following is a summary of our contractual obligations as of September 30, 2010 (in thousands):

Principal Payments Due:	Total	Less Than One Year	1-3 Years	3-5 Years	Thereafter
Mortgage notes payable	\$ 285,668	\$ 2,804	\$ 32,459	\$ 159,341	\$ 91,065
Other notes payable	12,790	—	12,790	—	—
Purchase obligations (1)	—	—	—	—	—
	\$ 298,458	\$ 2,804	\$ 45,249	\$ 159,341	\$ 91,065
Interest Payments Due:					
Mortgage notes payable	\$ 98,804	\$ 16,902	\$ 32,870	\$ 23,693	\$ 25,339
Other notes payable	1,444	1,156	288	—	—
Purchase obligations (1)	—	—	—	—	—
	\$ 100,248	\$ 18,058	\$ 33,158	\$ 23,693	\$ 25,339

- (1) Subsequent to September 30, 2010, we acquired two Brown Shoe/Payless locations, three St. Joseph’s Mercy Medical locations, an Advance Auto and two Kum & Go locations. See Note 15 of the consolidated financial statements included in this Form 10-Q for more information about the financing arrangements related to these acquisitions.

Election as a REIT

We elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with our taxable year ended December 31, 2008. If we continue to qualify for taxation as a REIT, we generally will not be subject to federal corporate income tax to the extent we distribute our REIT taxable income to our stockholders, and so long as we distribute at least 90% of our REIT taxable income. REITs are subject to a number of other organizational and operational requirements. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and federal income and excise taxes on our undistributed income. We believe we are organized and operating in such a manner as to qualify to be taxed as a REIT for the taxable nine months ended September 30, 2010.

Inflation

Some of our leases contain provisions designed to mitigate the adverse impact of inflation. These provisions generally increase rental rates during the terms of the leases either at fixed rates or indexed escalations (based on the Consumer Price Index or other measures). We may be adversely impacted by inflation on the leases that do not contain indexed escalation provisions. In addition, our net leases require the tenant to pay its allocable share of operating expenses, including common area maintenance costs, real estate taxes and insurance. This may reduce our exposure to increases in costs and operating expenses resulting from inflation.

Related-Party Transactions and Agreements

We have entered into agreements with American Realty Capital II, LLC and its wholly-owned affiliates, whereby we pay certain fees or reimbursements to our Advisor or its affiliates for acquisition fees and expenses, organization and offering costs, sales commissions, dealer manager fees, asset and property management fees and reimbursement of operating costs. See Note 10 to our consolidated financial statements included in this report for a discussion of the various related-party transactions, agreements and fees.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The market risk associated with financial instruments and derivative financial instruments is the risk of loss from adverse changes in market prices or rates. Our market risk arises primarily from interest rate risk relating to variable-rate borrowings the maturity of which is fixed with the use of hedge instruments. To meet our short and long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our short-term bridge equity funds bear interest at fixed and variable rates. Our long-term debt, which consists of secured financings, typically bears interest at fixed rates. Our interest rate risk management objectives are to limit the impact of interest rate changes in earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we may enter into interest rate hedge contracts such as swaps, collars, and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes.

As of September 30, 2010, our debt included fixed-rate debt with a carrying value of \$194.9 million and a fair value of \$210.0 million. Changes in market interest rates on our fixed rate debt impact fair value of the debt, but it has no impact on interest incurred or cash flow. For instance, if interest rates rise 100 basis points and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease, the same way the price of a bond declines as interest rates rise. The sensitivity analysis related to our fixed-rate debt assumes an immediate 100 basis point move in interest rates from their September 30, 2010 levels, with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease in the fair value of our fixed rate debt by approximately \$12.7 million. A 100 basis point decrease in market interest rates would result in an increase in the fair value of our fixed-rate debt by \$14.0 million.

As of September 30, 2010, our debt included variable-rate mortgage notes payable with a carrying value of \$90.8 million. Interest rate volatility associated with this variable-rate mortgage debt has been mitigated by the use of hedge instruments entered into simultaneously when the corresponding mortgage note was executed. The sensitivity analysis related to our variable-rate debt assumes an immediate 100 basis point move in interest rates from their September 30, 2010 levels, with all other variables held constant. A 100 basis point increase or decrease in variable interest rates on our variable-rate notes payable would increase or decrease our interest expense by \$0.9 million annually.

These amounts were determined by considering the impact of hypothetical interest rate changes on our borrowing costs, and, assume no other changes in our capital structure.

As the information presented above includes only those exposures that existed as of September 30, 2010, it does not consider exposures or positions arising after that date. The information represented herein has limited predictive value. As a result, the ultimate realized gain or loss with respect to interest rate fluctuations will depend on cumulative exposures, hedging strategies employed and the magnitude of fluctuations.

We do not have any foreign operations and thus we are not exposed to foreign currency fluctuations.

Item 4. Controls and Procedures

In accordance with Rules 13a-15(b) and 15d-15(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q and determined that the disclosure controls and procedures are effective.

No change occurred in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended September 30, 2010 that has materially affected, or is reasonable likely to materially affect, our internal controls over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

As of the end of the period covered by this Quarterly Report on Form 10-Q, we are not a party to, and none of our properties are subject to, any material pending legal proceedings.

Item 1A. Risk Factors

There have been no material changes from the risk factors set forth in our Annual Report on Form 10-K for year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Reserved

Item 5. Other Information

None

Item 6. Exhibits

The exhibits listed on the Exhibit Index (following the signatures section of this report) are included, or incorporated by reference, in this quarterly report.

SIGNATURES

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

American Realty Capital Trust, Inc.

By: /s/ Nicholas S. Schorsch

Nicholas S. Schorsch
Chief Executive Officer and Chairman of the
Board of Directors
(Principal Executive Officer)

By: /s/ Brian S. Block

Brian S. Block
Executive Vice President, Chief Financial
Officer
(Principal Accounting Officer)

Date: November 15, 2010

EXHIBIT INDEX

The following exhibits are included, or incorporated by reference, in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (and are numbered in accordance with Item 601 of Regulation S-K).

Exhibit No. Description

- | | |
|------|---|
| 31.1 | Certification of the Principal Executive Officer of the Company pursuant to Securities Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 31.2 | Certification of the Principal Financial Officer of the Company pursuant to Securities Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32 | Written statements of the Principal Executive Officer and Principal Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |