American Realty Capital Trust, Inc.
Form 10-Q
October 29, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
OR

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

Commission file number: 000-53958

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

Maryland	71-1036989
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
405 Park Avenue, New York, NY	10022
(Address of principal executive offices)	(Zip Code)

(646) 937-6900
(Registrant's telephone number, including area code)
(Principal executive offices formerly located at 106 York Road, Jenkintown, PA)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of outstanding shares of the registrant's common stock on October 29, 2012 was 158,478,679 shares.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN REALTY CAPITAL TRUST, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except for share and per share data)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Real estate investments, at cost:		
Land	$ 334,470	$ 325,458
Buildings, fixtures and improvements	1,558,105	1,528,962
Acquired intangible lease assets	276,819	271,751
Total real estate investments, at cost	2,169,394	2,126,171
Less: accumulated depreciation and amortization	(179,730)	(101,576)
Total real estate investments, net	1,989,664	2,024,595
Cash and cash equivalents	5,819	33,329
Investment securities, at fair value	20,247	17,275
Restricted cash	2,772	2,728
Investment in unconsolidated joint venture	—	11,201
Prepaid expenses and other assets	26,528	27,564
Deferred costs, net	14,471	13,883
Total assets	$ 2,059,501	$ 2,130,575
LIABILITIES AND EQUITY		
Revolving credit facility	$ 202,307	$ 10,000
Long-term note payable	235,000	—
Mortgage notes payable	511,144	673,978
Mortgage discount and premium, net	756	679
Below-market lease liabilities, net	7,922	8,150
Derivatives, at fair value	135	8,602
Accounts payable and accrued expenses	78,211	11,706
Deferred rent and other liabilities	4,049	6,619
Dividends payable	—	10,637
Total liabilities	1,039,524	730,371
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, 158,576,630 and 177,963,413 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	1,586	1,780
Additional paid-in capital	1,338,453	1,548,009
Accumulated other comprehensive income (loss)	2,497	(5,053)
Accumulated deficit	(333,601)	(166,265)
Total stockholders' equity	1,008,935	1,378,471
Non-controlling interests	11,042	21,733

Total equity	1,019,977	1,400,204
Total liabilities and equity	$ 2,059,501	$ 2,130,575

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

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AMERICAN REALTY CAPITAL TRUST, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except for per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Rental income	$44,400	$34,943	$132,590	$83,715
Operating expense reimbursements	1,662	1,252	4,734	2,314
Total revenues	46,062	36,195	137,324	86,029
Operating expenses:				
Acquisition and transaction related	534	5,554	1,233	23,377
Property operating	2,797	1,542	7,488	2,666
Fees to affiliate	—	1,022	4,143	2,572
General and administrative	1,586	371	6,600	1,104
Equity-based compensation	798	375	1,955	1,099
Depreciation and amortization	26,309	19,828	78,521	45,015
Listing, internalization and merger	68,106	—	85,766	—
Total operating expenses	100,130	28,692	185,706	75,833
Operating income	(54,068)	7,503	(48,382)	10,196
Other income (expenses):				
Interest expense	(10,512)	(10,167)	(30,447)	(25,879)
Extinguishment of debt	—	—	(6,902)	(720)
Equity in income of unconsolidated joint venture	—	22	36	71
Other income, net	264	379	1,980	473
Loss on derivative instruments	—	(3,114)	(4,055)	(2,967)
Loss on disposition of property	—	—	—	(44)
Total other expenses, net	(10,248)	(12,880)	(39,388)	(29,066)
Net loss	(64,316)	(5,377)	(87,770)	(18,870)
Net income attributable to non-controlling interests	(179)	(284)	(526)	(830)
Net loss attributable to stockholders	(64,495)	(5,661)	(88,296)	(19,700)
Other comprehensive income (loss) items:				
Designated derivatives, fair value adjustment	27	(838)	4,578	(864)
Unrealized gain (loss) on investment securities, net	1,041	(433)	2,972	(433)
Total other comprehensive income (loss)	1,068	(1,271)	7,550	(1,297)
Comprehensive loss	$(63,427)	$(6,932)	$(80,746)	$(20,997)
Basic and diluted net loss per share attributable to stockholders	$(0.41)	$(0.03)	$(0.54)	$(0.17)

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

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AMERICAN REALTY CAPITAL TRUST, INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Nine Months Ended September 30, 2012
(In thousands, except for share data)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stock-holders' Equity	Non-Controlling Interests	Total Equity
	Number of Shares	Par Value						
Balance, December 31, 2011	177,963,413	$1,780	$1,548,009	$(5,053)	$(166,265)	$1,378,471	$21,733	$1,400,204
Common stock repurchased, inclusive of fees and expenses	(20,952,380)	(210)	(232,113)	—	—	(232,323)	—	(232,323)
Repurchase of fractional shares	(12,251)	—	(126)	—	—	(126)	—	(126)
Offering costs	—	—	(686)	—	—	(686)	—	(686)
Common stock issued through distribution reinvestment plan	1,009,415	10	9,579	—	—	9,589	—	9,589
Dividends declared	—	—	—	—	(79,040)	(79,040)	—	(79,040)
Common stock redemptions	(289,685)	(3)	(20)	—	—	(23)	—	(23)
Share based compensation	858,118	9	1,526	—	—	1,535	—	1,535
Amortization of restricted stock	—	—	13,283	—	—	13,283	—	13,283
Increase in interest in subsidiaries	—	—	(999)	—	—	(999)	(10,587)	(11,586)
Contributions from non-controlling interest holders	—	—	—	—	—	—	750	750
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,380)	(1,380)
Net income (loss)	—	—	—	—	(88,296)	(88,296)	526	(87,770)
Other comprehensive income	—	—	—	7,550	—	7,550	—	7,550
	158,576,630	$1,586	$1,338,453	$2,497	$(333,601)	$1,008,935	$11,042	$1,019,977

Balance,
September 30,
2012

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

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AMERICAN REALTY CAPITAL TRUST, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	$(87,770)	$(18,870)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	62,161	35,778
Amortization of intangibles	16,360	9,237
Amortization of deferred financing costs	5,422	3,641
Amortization (accretion) of mortgage discounts and premiums, net	77	(116)
Equity-based compensation	14,818	1,099
Accretion of below-market lease liability	(228)	(228)
Loss on disposition of property	—	44
Equity in income of unconsolidated joint venture	(36)	(71)
Gain on redemption of investment in unconsolidated joint venture	(1,175)	—
Loss (gain) on derivative instruments	4,055	2,967
Changes in assets and liabilities:		
Prepaid expenses and other assets	7,717	(12,378)
Accounts payable and accrued expenses	66,789	21,808
Deferred rent and other liabilities	(2,570)	596
Net cash provided by operating activities	85,620	43,507
Cash flows from investing activities:		
Investment in real estate	(43,223)	(920,000)
Investment in other assets	(5,534)	—
Purchase of investment securities	—	(17,624)
Distributions from unconsolidated joint venture	12,412	631
Capital expenditures	(1,513)	(254)
Proceeds from disposition of real estate and other assets	—	581
Net cash used in investing activities	(37,858)	(936,666)
Cash flows from financing activities:		
Proceeds from revolving credit facility	269,438	—
Payments on revolving credit facility	(77,131)	—
Proceeds from long-term notes payable	235,000	—
Payments on long-term notes payable	—	(12,790)
Proceeds from mortgage notes payable	—	243,852
Payments on mortgage notes payable	(162,834)	(8,818)
Payments related to extinguishment of debt	(7,942)	—
Payments of financing costs	(5,893)	(18,814)
Proceeds from issuance of common stock, net	—	991,424
Repurchase of common stock	(220,000)	—
Repurchase of fractional shares	(126)	—

Payments of costs for listing, tender offer and registration of common stock	(10,570)	—
Dividends paid	(80,088)	(31,587)
Redemptions paid	(2,866)	(6,443)
Contributions from non-controlling interest holders	750	—
Repayments of investments to non-controlling interest holders	(11,586)	—
Distributions to non-controlling interest holders	(1,380)	(1,528)
Restricted cash	(44)	(2,618)
Net cash provided by (used in) financing activities	(75,272)	1,152,678
Net (decrease) increase in cash and cash equivalents	(27,510)	259,519
Cash and cash equivalents, beginning of period	33,329	31,985
Cash and cash equivalents, end of period	$5,819	$291,504
Supplemental Disclosures:		
Cash paid for interest	$25,456	$22,422
Cash paid for income taxes	303	144
Non-Cash Investing and Financing Activities:		
Common stock issued through distribution reinvestment plan	9,589	25,004
Mortgages assumed in real estate acquisitions	—	41,279

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

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AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

Note 1 — Organization

American Realty Capital Trust, Inc. (the "Company"), incorporated in August 2007, is a Maryland corporation that qualifies as a real estate investment trust ("REIT") for federal income tax purposes. The Company was formed to acquire a diversified portfolio of commercial real estate, primarily freestanding single tenant properties net leased to credit worthy tenants on a long-term basis. In January 2008, the Company commenced an initial public offering ("IPO") on a "best efforts" basis to sell up to 150.0 million shares of common stock, excluding 25.0 million shares issuable pursuant to a Distribution Reinvestment Plan ("DRIP"), offered at a price of $10.00 per share, subject to certain volume and other discounts. In March 2008, the Company commenced real estate operations. The Company's IPO closed in July 2011 and the Company operated as a non-traded REIT through February 29, 2012.

Effective as of March 1, 2012, the Company internalized the management services previously provided by American Realty Capital Advisors, LLC (the "Former Advisor") and its affiliates, as a result of which the Company became a self-administered REIT managed full-time by its own management team (the "Internalization"). Concurrent with the Internalization, the Company listed its common stock on The NASDAQ Global Select Market ("NASDAQ") under the symbol "ARCT" (the "Listing").

To provide for an orderly transition in conjunction with the Internalization and the Listing, the Company and American Realty Capital Operating Partnership, L.P. (the "OP") entered into an agreement, effective as of March 1, 2012, with the Former Advisor, a wholly-owned subsidiary of AR Capital, LLC ("ARC") that managed the day-to-day business and affairs of the Company prior to the Internalization, to terminate the advisory agreement between the Company, the OP and the Former Advisor (the "Advisory Agreement") and provide for certain transitional services to the Company. See Note 14 — Related Party Transactions and Arrangements.

In connection with the Listing, the Company offered to purchase up to $220.0 million in shares of its common stock from stockholders, pursuant to a modified "Dutch Auction" cash tender offer (the "Tender Offer"). As a result of the Tender Offer, on April 4, 2012, the Company purchased 21.0 million shares of its common stock at a purchase price of $10.50 per share, for an aggregate cost of $220.0 million, excluding fees and expenses relating to the Tender Offer. See Note 10 — Common Stock.

Substantially all of the Company's business is conducted through the OP, a Delaware limited partnership. The Company is the sole general partner of the OP and owns substantially all of the partnership interest in the OP. The Former Advisor is a limited partner of the OP and owns a nominal partnership interest (non-controlling interest) in the OP. The limited partner interests have the right to convert OP units into cash or, at the Company's option, a corresponding number of shares of the Company's common stock, as allowed by the limited partnership agreement of the OP.

As of September 30, 2012, the Company owned 507 properties with 15.8 million square feet of leasable area, 100% leased with a weighted average remaining lease term of 12.7 years. In constructing the portfolio, the Company has been committed to diversification by industry, tenant and geography.

Note 2 — Merger Agreement

On September 6, 2012, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Realty Income Corporation, a Maryland corporation ("Realty"), and Tau Acquisition LLC, a Delaware limited liability company and wholly owned subsidiary of Realty ("Merger Sub"). The Merger Agreement provides for the merger of the Company with and into Merger Sub (the "Merger"), with Merger Sub surviving as a wholly owned subsidiary of Realty. The Board of Directors of the Company has unanimously approved the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement.

Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each outstanding share of common stock, par value $0.01 per share, of the Company ("Company Common Stock"), will be converted into the right to receive 0.2874 shares of common stock, par value $0.01 per share, of Realty ("Realty Common Stock").

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The Merger Agreement provides that any options to purchase shares of Company Common Stock that are outstanding and unexercised at the Effective Time will be deemed subject to a cashless exercise and the holder thereof will be deemed to receive a number of shares of Company Common Stock equal to (a) the number of shares of Company Common Stock subject to each such option, less (b) the number of shares of Company Common Stock equal in value to the aggregate exercise price of each option, assuming a fair market value of a share of Company Common Stock equal to the closing price of the Company Common Stock on the last completed trading day immediately prior to the consummation of the Merger, which shares of Company Common Stock will be converted into the right to receive 0.2874 shares of Realty Common Stock. In addition, immediately prior to the Effective Time, the vesting of each share of Company restricted stock will be accelerated, and each such share will be converted into the right to receive 0.2874 shares of Realty Common Stock.

The Company and Realty have made certain customary representations and warranties to each other in the Merger Agreement. The Company has agreed, among other things, not to solicit, initiate, knowingly encourage or facilitate any inquiry, discussion, offer or request from third parties regarding other proposals to acquire the Company and not to engage in any discussions or negotiations regarding any such proposal, or furnish to any third party non-public information regarding the Company. The Company has also agreed to certain other restrictions on its ability to respond to any such proposals. The Merger Agreement also includes certain termination rights for both the Company and Realty and provides that, in connection with the termination of the Merger Agreement, under specified circumstances, (i) the Company may be required to pay to Realty a termination fee of $51.0 million and/or reimburse Realty’s transaction expenses in an amount equal to $4.0 million and (ii) Realty may be required to reimburse the Company’s transaction expenses in an amount equal to $4.0 million.

The completion of the Merger is subject to various conditions, including, among other things, the approval by the Company's stockholders of the Merger and the other transactions contemplated by the Merger Agreement, the approval by Realty's stockholders of the issuance of Realty Common Stock in connection with the Merger and certain consents having been obtained. Realty and the Company filed preliminary joint proxy materials (Form S-4) with the Securities and Exchange Commission on October 1, 2012. Complete information on the Merger, including the Merger background, reasons for the Merger, who may vote, how to vote and the time and place of the Company stockholder meeting will be included in a definitive proxy statement to be filed in November 2012. As of September 30, 2012, the Company has incurred $4.9 million for legal, consulting and other expenses related to the Merger. The Merger is expected to close during the fourth quarter of 2012 or early in the first quarter of 2013.

Note 3 — Listing and Internalization

The Listing occurred on March 1, 2012. In addition, effective March 1, 2012, in connection with the Internalization, the Company provided the Former Advisor with notice of termination of the Advisory Agreement. For the nine months ended September 30, 2012, the Company incurred $17.7 million of expenses that resulted from the Listing and Internalization, respectively. Of the $17.7 million of expenses for the nine months ended September 30, 2012, $12.9 million related to the vesting of previously issued restricted shares of common stock that became fully vested upon the Listing of the Company, $3.3 million related to a contract termination fee paid to the Former Advisor to terminate the Advisory Agreement and $1.5 million related to transfer agent fees and other transition costs.

In conjunction with the Internalization, the Company paid the Former Advisor $5.5 million for certain tangible and intangible assets. This transaction was accounted for as a business combination, which requires the Company to allocate the $5.5 million first to the fair value of identifiable assets, with any excess amounts allocated to goodwill. In accordance with accounting guidance, the Company has one year to finalize the amounts allocated to the fair value of the assets it acquired and to goodwill. Any amounts allocated to identifiable assets, except for any indefinite or non-amortizing intangibles identified, will be depreciated or amortized in accordance with the Company's policy. Amounts allocated to goodwill will be periodically and at least annually evaluated for impairment. At September 30,

2012, the entire $5.5 million is recorded in prepaid expenses and other assets on the consolidated balance sheet as the Company finalizes its accounting for the business combination. See Note 14 — Related Party Transactions and Arrangements.

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AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

Note 4 — Summary of Significant Accounting Policies

The financial statements of the Company included herein were prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The information furnished includes all adjustments and accruals of a normal recurring nature, which, in the opinion of management, are necessary for a fair presentation of results for the interim periods. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011, which are included in the Company’s Form 10-K filed with the SEC on February 15, 2012 and as amended on May 11, 2012.

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, 2011. There have been no material changes to these policies during the three and nine months ended September 30, 2012, except for the following:

Business Combination

The Company accounts for transactions that meet the definition of a business combination by recording the assets acquired and liabilities assumed at their fair value upon acquisition. Intangible assets are identified and recognized individually. If the purchase price plus the fair value of the liabilities assumed exceeds the fair value of the assets acquired, goodwill is recognized. The Company has a period, not to exceed one year, from the date of acquisition, to gather all facts that existed at the acquisition date in determining fair value. Any amounts allocated to identifiable assets, except for any indefinite or non-amortizing intangibles identified, will be depreciated or amortized in accordance with the Company's policy. Amounts allocated to goodwill will be periodically and at least annually evaluated for impairment.

Reclassifications

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current year presentation.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance that expands the existing disclosure requirements for fair value measurements, primarily for Level 3 measurements, which are measurements based on unobservable inputs such as the Company’s own data. This guidance was largely consistent with previous fair value measurement principles with few exceptions that did not result in a change in general practice. The guidance became effective for interim and annual reporting periods ending after December 15, 2011. The adoption of this guidance did not have a material impact on the Company’s financial position or results of operations as the guidance relates only to disclosure requirements.

In June 2011, the FASB issued guidance requiring entities to present items of net income and other comprehensive income either in one continuous statement - referred to as the statement of comprehensive income - or in two separate, but consecutive, statements of net income and other comprehensive income. The new guidance did not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB deferred certain provisions of this guidance related to the presentation of certain reclassification adjustments out of accumulated other comprehensive income, by component, in both the statement and the statement where the reclassification is presented. This guidance was applied prospectively and was effective for interim and annual periods ending after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's financial position or results of operations but changed the location of the presentation of other comprehensive income to more closely associate the disclosure with net income.

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(Unaudited)

In September 2011, the FASB issued guidance that allows entities to perform a qualitative analysis as the first step in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then a quantitative analysis for impairment is not required. The guidance was effective for interim and annual impairment tests for fiscal periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's financial position or results of operations.

In December 2011, the FASB issued guidance which contains new disclosure requirements regarding the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make financial statements prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards and will give the financial statement users information about both gross and net exposures. The guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013. The adoption of this guidance is not expected to have a material impact on the Company's financial position or results of operations.

In July 2012, the FASB issued revised guidance intended to simplify how an entity tests indefinite-lived intangible assets for impairment. The amendments will allow an entity first to assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. An entity will no longer be required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative test unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments are effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company does not expect the adoption to have a material impact on the Company’s consolidated financial statements.

Note 5 — Real Estate Investments

The following table presents the allocation of the assets acquired and liabilities assumed during the periods presented (dollar amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Real estate investments, at cost:				
Land	$6,022	$21,259	$9,012	$153,609
Buildings, fixtures and improvements	20,939	164,459	29,143	688,075
Total tangible assets	26,961	185,718	38,155	841,684
Acquired intangibles:				
In-place leases	3,315	27,756	5,068	119,264
Mortgage assumed	—	(10,528)	—	(41,279)
Mortgage discount	—	—	—	331
Total assets acquired, net	$30,276	$202,946	$43,223	$920,000
Number of properties purchased	21	37	25	147

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AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

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, 2012, all of the properties the Company owned were 100% leased. The Company acquired the following properties during the nine months ended September 30, 2012 (dollar amounts in thousands other than annualized average rental income per square foot):

Property	Acquisition Date	No. of Buildings	Square Feet	Ownership Percentage	Remaining Lease Term[1]	Base Purchase Price[2]	Capitalization Rate[3]	Annualized Rental Income/NOI[4]
Portfolio as of Dec. 31, 2011		482	15,514,727	Various	12.8	$2,110,738	8.16 %	$ 172,150
Acquisitions for the nine months ended September 30, 2012:								
Tractor Supply V	Jan. 2012	1	19,097	100 %	13.2	4,280	8.27 %	354
Tractor Supply VI	Jan. 2012	2	41,767	100 %	9.9	6,291	8.52 %	536
FedEx XIV Expansion	Jun. 2012	—	13,200	100 %	9.5	1,657	9.11 %	151
Family Dollar	Jun., Jul. & Aug. 2012	7	61,875	100 %	9.9	6,053	8.62 %	522
Family Dollar II	Aug. & Sep. 2012	3	24,365	100 %	9.8	3,127	8.73 %	273
Lockheed Martin Expansion	Aug. 2012	—	23,414	100 %	7.3	14	13.10 %	2
Ruby Tuesday	Aug. 2012	7	35,788	100 %	6.5	13,285	8.41 %	1,117
Advance Auto V	Sep. 2012	1	7,000	100 %	8.8	1,051	8.56 %	90
Bojangles II	Sep. 2012	4	12,988	100 %	10.6	7,465	8.01 %	598
Subtotal for the nine months September 30, 2012		25	239,494		9.2	43,223	8.43 %	3,643
Total		507	15,754,221		12.7	$2,153,961	8.16 %	$ 175,793
Annualized average rental income per square foot			$11.16					
Other investments[5]						17,625		
Total investment portfolio						$2,171,586		

(1) Remaining lease term as of September 30, 2012, in years. If the portfolio has multiple locations with varying lease expirations, remaining lease term is calculated on a weighted-average basis. Total remaining lease term is an average of the remaining lease term of the total portfolio.

(2) Contract purchase price excluding acquisition and transaction-related costs. Acquisition and transaction-related costs include legal costs, acquisition fees paid to the Former Advisor for properties acquired prior to March 1, 2012 and closing costs on the property.

(3) Annualized rental income or annualized net operating income ("NOI"), on a straight-line basis, as applicable, divided by base purchase price. Total capitalization rate is an average of the capitalization rate of the total portfolio.

(4) Annualized rental income/NOI for net leases is projected rental income for 2012, including annualized rents for properties acquired in 2012, on a straight-line basis, as of September 30, 2012, which includes the effect of tenant concessions such as free rent, as applicable. For modified gross leased properties, amount is projected rental income for 2012, on a straight-line basis, as of September 30, 2012, which includes the effect of tenant concessions such as free rent, as applicable, plus operating expense reimbursement revenue less property operating expenses.

(5) Includes a $17.6 million (cost basis) investment in the common stock of certain publicly traded REITs. See Note 6 — Investment Securities.

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Future Lease Payments

The following table presents future minimum base rental cash payments due to the Company subsequent to September 30, 2012. These amounts exclude contingent rentals that may be collected from certain tenants based on provisions related to sales thresholds and increases in annual rent based on exceeding certain economic indexes among other items (amounts in thousands):

Period	Future Minimum Base Rent Payments
October 1, 2012 to December 31, 2012	$42,894
2013	172,448
2014	174,861
2015	175,888
2016	175,909
Thereafter	1,493,192
Total	$2,235,192

Tenant Concentration

The following table lists tenants whose annualized rental income or NOI, on a straight-line basis, represented greater than 10% of consolidated annualized rental income as of September 30, 2012 and 2011:

	September 30, 2012		September 30, 2011	
FedEx	17	%	15	%
Walgreens	*		12	%

* Tenant's annualized rental income or NOI, on a straight-line basis, was not greater than 10% of total annualized rental income for all portfolio properties as of the dates specified.

The termination, delinquency or non-renewal of one of the above tenants may have a material adverse effect on revenues. No other tenant represented more than 10% of the annualized rental income for the periods presented.

Geographic Concentration

The following table lists the states where the Company has concentrations of properties whose annualized rental income or NOI, on a straight-line basis, represented greater than 10% of consolidated annualized rental income as of September 30, 2012 and 2011:

	September 30, 2012		September 30, 2011	
New York	12	%	10	%

No other state had properties that in total represented more than 10% of the annualized rental income or NOI as of the dates presented.

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Note 6 — Investment Securities

At September 30, 2012, the Company had investments in common stock with a fair value of $20.2 million. These investments are accounted for as available-for-sale investments and therefore increases or decreases in the fair value of these investments are recorded in accumulated other comprehensive income as a component of equity on the balance sheet unless the securities are considered to be permanently impaired at which time the losses would be reclassified to expense.

The following table details the unrealized gains and losses on investment securities as of the dates indicated (in thousands):

	September 30, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$17,625	$2,622	$—	$20,247

	December 31, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$17,625	$246	$(596)	$17,275

Note 7 — Revolving Credit Facility

In August 2011, the Company entered into a revolving credit facility with RBS Citizens, N.A. and a syndicate of financial institutions (the "RBS Facility") for an aggregate maximum principal amount of $330.0 million at September 30, 2012. Additionally, the RBS Facility has an accordion feature that allows it to be increased up to a maximum of $500.0 million under certain conditions. The proceeds of loans made under the RBS Facility may be used to finance the acquisition of net leased, investment or non-investment grade occupied properties or for general corporate purposes. Up to $15.0 million of the facility is available for letters of credit. The RBS Facility matures in August 2014.

The RBS Facility bears interest at the rate of (i) LIBOR with respect to Eurodollar rate loans plus a margin of 2.05% to 2.85%, depending on the Company's leverage ratio; or (ii) the greater of the federal funds rate plus 1.0% and the interest rate publicly announced by RBS Citizens, N.A. as its ‘‘prime rate’’ or ‘‘base rate’’ at such time with respect to base rate loans plus a margin of 1.25% to 1.75% depending on the Company's leverage ratio.

The RBS Facility requires the Company to meet certain financial covenants, including 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, 2012, the Company was in compliance with the financial covenants under the RBS Facility agreement.

In the event of a default, RBS Citizens, N.A. 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 RBS Facility requires a fee of 0.15% on the unused balance if amounts outstanding under the facility are 50% or more of the total facility amount and 0.25% on the unused balance if amounts outstanding under the facility are 50% or less of the total facility amount.

As of September 30, 2012, there was $202.3 million outstanding on the RBS Facility. The Company had letters of credit in the amount of $0.4 million under the RBS Facility at September 30, 2012. The effective annualized interest rate on the RBS Facility was 2.47% as of September 30, 2012. The Company had $127.3 million of unused borrowing capacity under the RBS Facility at September 30, 2012.

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Note 8 — Long-Term Note Payable

In April 2012, through the OP, the Company entered into an agreement with Wells Fargo Bank, National Association ("Wells Fargo") for an interim term loan in the amount of $200.0 million (the "Interim Term Loan"). Proceeds from the Interim Term Loan were used to prepay $161.2 million of the Company's outstanding mortgage indebtedness and related prepayment and other costs and to repay $23.8 million of the RBS Facility.

The Interim Term Loan was repaid in July 2012 with proceeds from a new $235.0 million five-year term loan (the "Term Loan") that bears interest at the rate of LIBOR with respect to Eurodollar rate loans plus a margin of 1.95% to 2.75%, depending on the Company's leverage ratio. The Term Loan requires interest-only payments until maturity in June 2017. Excess proceeds, after expenses and the repayment of the Interim Term Loan, were used to repay $33.3 million of the RBS Facility. As of September 30, 2012, the Company had $235.0 million outstanding on the Term Loan, which bore interest at an effective annualized rate of 2.61%.

The Term Loan requires and the Interim Term Loan required the Company to meet certain financial covenants, including 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, 2012, the Company was in compliance with the financial covenants under the Term Loan agreement.

Note 9 — Mortgage Notes Payable

The Company's mortgage notes payable consist of the following (dollar amounts in thousands):

	Encumbered Properties	Outstanding Loan Amount	Weighted Average Effective Interest Rate[1]	Weighted Average Maturity[2]
September 30, 2012	171	$511,144	5.22%	4.69
December 31, 2011	254	$673,978	5.27%	5.21

(1) Mortgage notes payable have fixed rates or rates that are fixed through the use of interest rate hedging instruments. Effective interest rates range from 4.09% to 6.97% at September 30, 2012 and December 31, 2011.
(2) Weighted average remaining years until maturity as of the periods presented.

The Company's sources of mortgage loan 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, 2012, the Company was in compliance with the debt covenants under the mortgage loan agreements.

In April 2012, the Company prepaid $161.2 million of mortgage indebtedness and related prepayment costs. In connection with the Company's extinguishment of outstanding indebtedness, the Company incurred $4.6 million of prepayment penalties and fees related to the termination of certain interest rate derivative arrangements that were associated with the extinguished mortgages and wrote off $2.3 million of related deferred financing costs and unamortized mortgage discounts during the nine months ended September 30, 2012.

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The following table summarizes the scheduled aggregate principal repayments subsequent to September 30, 2012 (amounts in thousands):

Period	Total
October 1, 2012 to December 31, 2012	$443
2013	5,922
2014	33,031
2015	87,744
2016	239,868
Thereafter	144,136
Total	$511,144

Note 10 — Common Stock

The Company listed its common stock on NASDAQ under the symbol "ARCT" on March 1, 2012. As of September 30, 2012 and December 31, 2011, the Company had 158.6 million and 178.0 million shares of common stock outstanding, respectively.

On February 15, 2012, the Company announced its intention to offer to purchase its common stock in an amount up to $220.0 million from its stockholders, pursuant to the Tender Offer. As a result of the Tender Offer, on March 29, 2012, the Company accepted for purchase 21.0 million shares of its common stock at a purchase price of $10.50 per share, for an aggregate cost of $220.0 million, excluding related fees and expenses. The Company purchased the 21.0 million tendered shares on April 4, 2012. The Company incurred $12.4 million in costs related to the Tender Offer.

In February 2012, the Company’s Board of Directors authorized and the Company declared an annual dividend of $0.70 per share or $0.0583 per share per month, which was paid to stockholders of record at the close of business on the 8th day of each month and payable on the 15th day of such month.

In July 2012, the Company's Board of Directors authorized and the Company declared an increased annual dividend of $0.715 per share, or $0.0596 per share per month, payable, but not guaranteed, monthly to stockholders of record at the close of business on the 8th day of each month and payable on the 15th day of such month. The first dividend at such rate was paid on September 15, 2012 to stockholders of record at the close of business on September 8, 2012.

Prior to February 2012, the Company had a DRIP whereby stockholders could elect to have their distributions reinvested in shares of common stock at $9.50 per share. In February 2012, at the time the Company announced its intention to list its common stock on NASDAQ, the DRIP was suspended. On a cumulative basis, 6.3 million shares were issued under the DRIP.

Prior to February 2012, the Company had a Share Repurchase Program ("SRP") whereby stockholders could sell their shares to the Company in limited circumstances. In February 2012, at the time the Company announced its intention to list its common stock on NASDAQ, the SRP was terminated. On a cumulative basis, 1.4 million shares were repurchased under the SRP.

In May 2012, the Company filed a universal shelf registration statement on Form S-3 that permits the Company to sell, at any time and from time to time, in one or more offerings, an indeterminate number, principal amount or liquidation amount of common stock, preferred stock, debt securities, warrants, units or any combination thereof, up to the amount authorized by the Company's charter. As of September 30, 2012, the Company's charter authorized the Company to issue up to a maximum of 240.0 million shares of common stock (including the shares currently outstanding) and 10.0 million shares of preferred stock; however, the Board of Directors has the ability to amend the Company's charter from time to time to increase or decrease the number of authorized shares. Net proceeds from the securities issued may be used for general corporate purposes, including the funding of the Company's investment activity, the repayment of outstanding indebtedness, working capital or other corporate purposes. No amounts have been issued under this registration statement as of September 30, 2012.

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Note 11 — 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 how market participants would value 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, 2012 and December 31, 2011, 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.

The valuation of derivative instruments is determined using a discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, as well as observable market-based inputs, including interest rate curves and implied volatilities. In addition, credit valuation adjustments, are incorporated into the fair values to account for the Company’s potential nonperformance risk and the performance risk of the counterparties.

The Company has common stock investments that are traded on a national exchange and therefore, due to the availability of quoted market prices in active markets, classified these investments as Level 1 in the fair value hierarchy.

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The following table presents information about the Company's assets and liabilities (including derivatives that are presented net) measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011, 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, 2012				
Investments in common stock	$20,247	$—	$—	$20,247
Interest rate swap, collar and cap derivatives, net	$—	$135	$—	$135
December 31, 2011				
Investments in common stock	$17,275	$—	$—	$17,275
Interest rate swap and collar derivatives, net	$—	$8,602	$—	$8,602

A review of the fair value hierarchy classification is conducted on a quarterly basis. Changes in the type of inputs may result in a reclassification for certain assets. There were no transfers between Level 1, 2 or 3 of the fair value hierarchy during the nine months ended September 30, 2012.

The Company is required to disclose the fair value of financial instruments for which it is practicable to estimate that value. The fair value of short-term financial instruments such as cash and cash equivalents, restricted cash, other receivables, accounts payable and distributions payable approximates their carrying value on the consolidated balance sheet due to their short-term nature. The fair values of the mortgage notes payable and the portion of the floating rate debt that is fixed through the use of derivative instruments are obtained by calculating the present value at current market rates. The interest rates of the note payable and the RBS Facility that are not fixed with derivative instruments are determined by variable market rates and the Company's leverage ratio, and each has terms commensurate with the market; as such, the outstanding balances on the note payable and the RBS Facility approximate fair value.

The fair values of the Company's financial instruments that are not reported at fair value on the consolidated balance sheet are reported below (amounts in thousands):

	Level	Carrying Amount [(1)] at September 30, 2012	Fair Value at September 30, 2012	Carrying Amount [(1)] at December 31, 2011	Fair Value at December 31, 2011
Mortgage notes payable	3	$511,900	$539,204	$674,657	$687,481
Long-term note payable	3	$235,000	$235,000	$—	$—
Revolving credit facility	3	$202,307	$202,307	$10,000	$10,000

(1) Carrying amount includes premiums and discounts on mortgage notes payable.

Note 12 — Derivatives 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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The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the balance sheets as of September 30, 2012 and December 31, 2011 (amounts in thousands):

	Balance Sheet Location	September 30, 2012	December 31, 2011
Derivatives designated as hedging instruments:			
Interest Rate Products	Derivatives, at fair value	$(135)	$(7,702)
Derivatives not designated as hedging instruments:			
Interest Rate Products	Derivatives, at fair value	$—	$(900)

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 $0.1 million will be reclassified from other comprehensive income as an increase to interest expense.

Derivatives Designated as Hedging Instruments

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 these objectives, 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.

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.

As of September 30, 2012, 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 Amount
Interest Rate Swap	1	$81
Interest Rate Collar	1	4,115

As of December 31, 2011, 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 Amount
Interest Rate Swaps	10	$106,348
Interest Rate Collar	1	4,115

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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, 2012 and 2011 (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Amount of loss recognized in accumulated other comprehensive income as interest rate derivatives (effective portion)	$(6)	$(1,368)	$(497)	$(2,464)
Amount of loss reclassified from accumulated other comprehensive income into income as interest expense or extinguishment of debt costs (effective portion)	$(33)	$(528)	$(5,077)	$(1,600)
Amount of gain (loss) recognized in income on derivative as loss on derivative instruments (ineffective portion and amount excluded from effectiveness testing)	$—	$(20)	$(4,432)	$(83)

In March 2012, the Company had informed certain lenders of its intention to repay certain mortgage notes payable and terminate the related swap arrangements. Therefore, all interest rate hedging instruments associated with those mortgage notes payable were transferred from hedging instruments to derivatives not designated as hedging instruments and $4.5 million related to those derivatives previously recorded in other comprehensive income was reclassified to extinguishment of debt on the accompanying consolidated statement of operations during the three months ended March 31, 2012.

Derivatives Not Designated as Hedging Instruments

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 are not designated or do not meet the strict hedge accounting requirements to be classified as hedging instruments.

As of September 30, 2012, the Company had the following outstanding interest rate derivatives that were not designated as cash flow hedges in qualifying hedging relationships (dollar amounts in thousands):

Interest Rate Derivative	Number of Instruments	Notional Amount
Interest Rate Cap	1	$50,000

As of December 31, 2011, the Company had the following outstanding interest rate derivatives that were not designated as cash flow hedges in qualifying hedging relationships (dollar amounts in thousands):

Interest Rate Derivative	Number of	Notional Amount

	Instruments	
Interest Rate Collar	1	$22,680

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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, 2012 and 2011 (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Location of Gain or (Loss) Recognized in Income on Derivative:				
Interest expense	$—	$(195)	$—	$(578)
Gains (losses) on derivative instruments	$—	$122	$(53)	$298
Total	$—	$(73)	$(53)	$(280)

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.

As of September 30, 2012, the fair value of derivatives in a net liability position related to these agreements was $0.1 million. As of September 30, 2012, 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 $0.1 million at September 30, 2012.

Note 13 — 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 the Company, except for the following:

Since the announcement of the Merger Agreement on September 6, 2012, six alleged class actions and/or shareholder derivative actions have been filed on behalf of alleged stockholders of the Company and/or the Company itself in the Circuit Court for Baltimore City, Maryland, under the following captions: Quaal v. American Realty Capital Trust Inc., et al., No. 24-C-12-005306, filed September 7, 2012; Hill v. American Realty Capital Trust, Inc., et al., No. 24-C-12-005502, filed September 19, 2012; Goldwurm v. American Realty Capital Trust, Inc., et al., No. 24-C-12-005524, filed September 20, 2012; Gordon v. Schorsch, et al., No. 24-C-12-005571, filed September 21, 2012; Gregor v. Kahane, et al., No. 24-C-12-005563, filed September 21, 2012; and Rooker v. American Realty Capital Trust, Inc., et al., No. 24-C-12-005924. Plaintiffs in four of the Maryland actions, Quaal, Hill, Gordon, and Gregor, moved to consolidate the actions and to appoint Brower Piven, P.C. as lead counsel for plaintiffs, with support from the plaintiff in the Rooker action. Plaintiff in the other outstanding Maryland action, Goldwurm, filed a cross-motion to consolidate and to appoint Faruqi & Faruqi LLP as lead counsel.

Two alleged class actions also have been filed on behalf of alleged stockholders of the Company in the Supreme Court of the State of New York for New York, New York, under the following captions: The Carol L. Possehl Living Trust v. American Realty Capital Trust, Inc., et al., No. 653300-2012, filed September 20, 2012; and Salenger v. American Realty Capital Trust, Inc. et al., No. 353355-2012, filed September 25, 2012. On October 18, 2012, the cases were consolidated under the caption In re American Realty Capital Trust Shareholders Litigation, and on October 19, 2012, defendants filed a petition to stay the consolidated case pending resolution of the actions in Maryland.

All of these complaints name as defendants the Company, members of the Company's Board of Directors, Realty and Merger Sub. In each case, the plaintiffs allege that the Company's Directors breached their fiduciary duties to the Company and/or its stockholders in negotiating and approving the Merger Agreement, that the consideration negotiated in the Merger Agreement improperly values the Company, that the Company's stockholders will not receive fair value for their common stock of the Company in the Merger, and that the terms of the Merger Agreement impose improper deal-protection devices that purportedly preclude competing offers. The complaints further allege that Realty, Merger Sub and, in some cases, the Company aided and abetted those alleged breaches of fiduciary duty. Plaintiffs seek injunctive relief, including enjoining or rescinding the Merger, and an award of other unspecified attorneys' and other fees and costs, in addition to other relief.

The cases involve complex issues of law and fact and have not yet progressed to the point where the Company can:

- predict their outcomes;
- estimate damages that might result from the cases; or
- predict the effects that final resolutions that the cases might have on its business, financial condition or results of operations, although such effects could be materially adverse.

The Company believes these allegations to be without merit. The Company intends to seek dismissal of the lawsuits for failure to state a valid legal claim, and if the cases are not dismissed on motion, to vigorously defend itself against these allegations. The Company maintains directors and officers liability insurance which the Company believes should provide coverage to the Company and its officers and directors for most or all of any costs, settlements or judgments resulting from the lawsuits.

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.

Note 14 — Related Party Transactions and Arrangements

Effective as of March 1, 2012, the Company internalized the management services previously provided to it by the Former Advisor and its affiliates, concurrently with the Listing. The Former Advisor is wholly-owned by ARC. ARC is majority-owned and controlled by Nicholas S. Schorsch, the Company's Chairman of the Board of Directors and William M. Kahane, the Company's Chief Executive Officer, President and Director.

Fees in Connection with the Merger

The Company entered into agreements with an affiliate, ARC Advisory Services, LLC, to provide legal services up to the date that the Company entered into the Merger Agreement and until the Merger closes. The Company has agreed

to pay $1.6 million pursuant to these contracts. As of September 30, 2012, the Company has incurred $1.3 million of expenses pursuant to these agreements, which includes amounts for services provided as of that date.

The Company entered into an agreement with an affiliate, ARC Advisory Services, LLC, to provide support services including legal, accounting, marketing, human resources and information technology, among other services, until the earlier of the Merger closing date or one year. The agreement provides for reimbursement for actual costs and expenses incurred in providing such services. As of September 30, 2012 the Company has incurred $25,000 for services pursuant to this agreement.

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The Company entered into an agreement with affiliates Realty Capital Securities, LLC and ARC Advisory Services, LLC, to provide financial advisory and information agent services related to the proxy solicitation seeking approval of the Merger by the Company's stockholders which services are expected to be provided in the third and fourth quarters of 2012. Services to be provided include facilitation of the preparation, distribution and accumulation and tabulation of proxy materials, stockholder, analyst and financial advisor communications and consultation on materials and communications made to the public and regulatory agencies regarding the Merger. The Company has agreed to pay $1.5 million pursuant to this contract. As of September 30, 2012, the Company has incurred $0.5 million of expenses pursuant to this agreement, which includes amounts for services provided as of that date.

The Company is party to a license agreement with its affiliates, the Former Advisor and ARC, pursuant to which the Company licenses office space in New York, New York, Dresher, Pennsylvania and Palo Alto, California. The Company has agreed to indemnify the the Former Advisor and ARC against liabilities resulting from the Company's use and/or occupancy of the licensed space, including attorney’s fees and costs. This license agreement will be terminated concurrently with the closing of the Merger.

Incentive Listing Fee

In connection with the Listing, ARC was entitled to a subordinated incentive listing fee equal to 15.0% of the Excess Value Amount. The Excess Value Amount is defined as the amount, if any, by which (a) the market value of the Company’s common stock, based on the volume-weighted average of the daily volume-weighted average price, increased by the cumulative dividends paid by the Company during the measurement period for each day following the ex-dividend date of each respective dividend on September 5, 2012 and October 3, 2012, as declared by NASDAQ, of the shares issued and outstanding at the Listing over the 30 trading days beginning August 28, 2012, which is the 181st day after the shares were first listed on NASDAQ ("Seasoned Average Market Value"), plus (b) distributions paid by the Company, from May 21, 2008 and prior to March 1, 2012, exceeds (c) the sum of the total amount of capital raised from stockholders during the IPO and (d) the amount of cash flow necessary to generate a 6.0% annual cumulative, non-compounded return to such stockholders through March 1, 2012, which equated to a minimum stock price of $9.81 per share.

Payment of such fee was initially to be made in the form of a three year promissory note bearing interest at the applicable federal rate established by the Internal Revenue Service on the date of issuance ("Subordinated Incentive Listing Fee Note"), payable at maturity in cash or shares of the Company's common stock at the option of the holder.

In connection with certain requests and negotiation related to the Company's entry into the Merger Agreement, the Company and ARC agreed to modify the terms of the Subordinated Incentive Listing Fee Note to (i) provide for a cap and floor on the principal amount of the Subordinated Incentive Listing Fee Note, (ii) provide that, until October 31, 2012, such note shall be due and payable upon demand on not less than five (5) business days' prior written notice by ARC and (iii) eliminate ARC's right to convert the principal amount of the Subordinated Incentive Listing Fee Note into shares of the Company's common stock at maturity.
On October 10, 2012, the Excess Value Amount was determined to be $421.3 million resulting in the issuance of the Subordinated Incentive Listing Fee Note in the principal amount of $63.2 million. On October 10, 2012, ARC exercised its right to demand payment of the Subordinated Incentive Listing Fee Note and on October 12, 2012, the Company paid ARC $63.2 million, equal to the principal amount plus accrued interest, in full satisfaction of the

Subordinated Incentive Listing Fee Note.

As of September 30, 2012, the Company recorded an accrued expense related to the Subordinated Incentive Listing Fee Note in the amount of $63.2 million, charged to Listing, Internalization and Merger expenses.

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Amounts Paid in Connection with Listing, Internalization and Tender Offer

Effective as of March 1, 2012, the Company and the OP entered into an Amendment and Acknowledgment of Termination of the Amended and Restated Advisory Agreement (the "Amendment and Acknowledgment of Termination") with the Former Advisor, a wholly-owned subsidiary of ARC that managed the day-to-day business and affairs of the Company prior to the Internalization. Pursuant to the Amendment and Acknowledgment of Termination, the Company and the OP provided the Former Advisor with notice of termination of that certain Amended and Restated Advisory Agreement, dated June 2, 2010, effective on April 30, 2012, in accordance with the terms thereof. The Company paid the Former Advisor a termination fee and other costs in the amount of $3.6 million on March 1, 2012.

In conjunction with the Internalization, the Company paid the Former Advisor $5.5 million for tangible and intangible assets. This transaction was accounted for as a business combination, which requires the Company to allocate the $5.5 million first to the fair value of identifiable assets, with any excess amounts allocated to goodwill. In accordance with accounting guidance, the Company has one year to finalize the amounts allocated to the fair value of the assets it acquired and to goodwill.

In addition to the amount paid for tangible and intangible assets, $3.3 million was paid to the Former Advisor for cost reimbursements related to amounts incurred by the Former Advisor on the Company's behalf for the Listing, Tender Offer and a registration statement that was filed with the SEC and subsequently withdrawn.

Fees Paid in Connection With the Operations of the Company

Prior to the Internalization on March 1, 2012, the Company paid fees to the Former Advisor and its affiliates as described below. Subsequent to March 1, 2012 the Company is no longer obligated to pay fees to the Former Advisor. The Company pays the Former Advisor and its affiliates for legal, technology and other services based on usage of such services. For the three and nine months ended September 30, 2012, the Company paid the Former Advisor $0.2 million and $0.5 million, respectively, for such services unrelated to the Merger.

Pursuant to the Advisory Agreement, the Former Advisor received an acquisition fee of 1.0% of the contract purchase price of each acquired property and was reimbursed for acquisition costs incurred in the process of acquiring properties. In no event could the total of all acquisition and advisory fees and acquisition expenses payable with respect to a particular investment exceed 4.0% of the contract purchase price.

The Company paid the Former Advisor an annual fee of up to 1.0% of the contract purchase price of each property based on assets held by the Company on the measurement date, adjusted for appropriate closing dates for individual property acquisitions.

For the management and leasing of its properties, the Company paid to an affiliate of its Former Advisor a property management fee of (a) 2.0% of gross revenues from its single tenant properties and (b) 4.0% 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 reimbursed the affiliate costs of managing the properties.

The Company was required to pay the Former Advisor a financing coordination fee for services in connection with the origination or refinancing of any debt that the Company obtained and used to acquire properties or to make other permitted investments, or that was assumed, directly or indirectly, in connection with the acquisition of properties, equal to 1.0% of the amount available and/or outstanding under such financing, subject to certain limitations.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
	Paid	Forgiven	Paid	Forgiven	Paid	Forgiven	Paid	Forgiven
One-time fees:								
Acquisition fees and related cost reimbursements	NA	NA	$3,515	$—	$682	$—	$15,900	$—
Financing coordination fees and related cost reimbursements	NA	NA	1,256	—	1,050	—	3,968	—
Other expense reimbursements	NA	NA	3,906	—	27	—	6,287	—
On-going fees:								
Asset management fees	NA	NA	1,022	3,293	3,486	—	2,572	7,643
Property management and leasing fees	NA	NA	—	662	585	—	—	1,580
Total operational fees and reimbursements	$—	$—	$9,699	$3,955	$5,830	$—	$28,727	$9,223

NA — The agreement pursuant to which this fee or expense reimbursement applies was terminated on March 1, 2012.

Fees Paid in Connection with the Liquidation of the Company’s Real Estate Assets

The Company was obligated to 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 3.0% of the contract price for property sold (inclusive of any commission paid to outside brokers), in each case, payable to the Former Advisor if the Former Advisor or its affiliates, as determined by a majority of the independent directors, provided a substantial amount of services in connection with the sale. As of March 1, 2012, the Company is no longer obligated to pay such fees. No amounts were paid for the three and nine months ended September 30, 2012 or for the three months ended September 30, 2011, and $19,000 was paid for the nine months ended September 30, 2011.

Fees Paid in Connection with Common Stock Offering

Realty Capital Securities, LLC (the “Dealer Manager”), which is wholly-owned by ARC, was the dealer manager for the IPO. In connection with its services as dealer manager, the Dealer Manager received selling commissions of 7.0% 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) from the IPO before reallowance of commissions earned by participating broker-dealers. In addition, the Dealer Manager received dealer manager fees of 3.0% of the gross offering proceeds from the IPO before reallowance to participating broker-dealers. No selling commissions or dealer manager fees were paid to the Dealer Manager with respect to shares sold under the DRIP. The agreement with the Dealer Manager terminated at the completion of the IPO in July 2011. As no proceeds were raised during the three and nine months ended September 30, 2012, no selling commissions or dealer manager fees were paid to the Dealer Manager for such

periods. The Company incurred total commissions to the Dealer Manager of $38.3 million and $114.8 million during the three and nine months ended September 30, 2011, respectively.

Prior to the termination of the IPO, the Company reimbursed the Former Advisor up to 1.5% of the gross offering proceeds from the IPO. As no proceeds were raised during the three and nine months ended September 30, 2012, no offering expense reimbursements were paid to the Former Advisor for such periods. The Company incurred total offering expense reimbursements to the Former Advisor of $2.0 million and $4.8 million during the three and nine months ended September 30, 2011, respectively.

Financing

The Company has a $0.4 million letter of credit from the RBS Facility, which is used as a security deposit on rented office space for the Former Advisor.

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Common Stock Investment

In September 2011, the Company purchased 0.3 million shares of common stock in an initial public offering of an affiliated public company, valued at $3.5 million at September 30, 2012 and $2.9 million at December 31, 2011, respectively. The aggregate fair value of all investment securities owned by the Company was $20.2 million at September 30, 2012 and $17.3 million at December 31, 2011.

Investment in Unconsolidated Joint Venture

In December 2010, the Company entered into a joint venture agreement with an affiliate and an unrelated third party investor to invest in a portfolio of five retail condominium units. The Company's initial investment in this joint venture was $12.0 million and a 1.0% fee was paid to the Company by the affiliate. In June 2012, the joint venture agreement was terminated and this investment was fully redeemed, for which the Company recorded a gain of $1.2 million. The Company received cash distributions of $12.4 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2012, the Company's share of the net profit on the property was $36,000, respectively. For the three and nine months ended September 30, 2011, the Company's share of the net profit on the property was $22,000 and $71,000. No fees were paid to the Former Advisor in connection with this agreement.

Operating Partnership Units Owned by an Affiliate

On August 23, 2012, ARC Real Estate Partners, LLC ("AREP"), which is an affiliate comprised of Mr. Schorsch, Mr. Kahane and three other members of the Former Advisor, invested $0.8 million in the OP in exchange for 65,789 OP units. See Note 18 — Non-controlling Interests.

Restricted Shares Granted

On June 7, 2012, the Company made a one-time grant of 65,843 restricted shares to non-employees who work for the Former Advisor. These restricted shares will vest ratably each January 1st from January 1, 2013 through January 1, 2016. The share-based compensation expense related to these restricted shares granted to the non-employees is calculated using the fair value of stock at the vesting date. For the three and nine months ended September 30, 2012, the share-based compensation expense related to these restricted shares was $0.1 million.

Note 15 — Economic Dependency

Under various agreements, prior to Internalization, the Company had engaged the Former Advisor and its affiliates to provide certain services, for a fee, that were 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 was dependent upon the Former Advisor and its affiliates prior to Internalization. As of March 1, 2012, the Company became a self-administered REIT and therefore the Company no longer relies on the Former Advisor and its affiliates to provide the Company with these services. The Company may from time to time engage the Former Advisor for legal, information technology or other support services for which it

will pay market rates. See Note 14 — Related Party Transactions and Arrangements.

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Note 16 — Share-Based Compensation

Annual Incentive Compensation

In March 2012, the Company adopted an Annual Incentive Compensation Plan ("AICP") under which the Company's executives, employees and non-employee directors selected by the Company's compensation committee (the "Committee") may be eligible to earn annual performance-based bonus awards from a pool established each fiscal year that is funded via both a discretionary component and a formulaic component. Funding of the discretionary component is subject to the annual approval of the Committee based upon an assessment of corporate and individual performance relative to certain performance criteria and objectives to be determined by the Company's Board of Directors. For fiscal 2012, the maximum size of the AICP pool will be calculated as the sum of:

- Discretionary Component: an amount equal to up to 0.5% of the Company's stockholder's equity of $1.9 billion on March 1, 2012; and

- Formulaic Component: an amount equal to 20.0% of the Company's annualized funds from operations ("FFO") in excess of 6.0% of the Company's market capitalization of $1.9 billion as of March 1, 2012.

Any performance-based awards earned under the AICP and allocated to participants may be divided into the following three separate incentive compensation components, with payment of each conditioned on the participant's continued employment or continued service with the Company through the applicable payment date: cash bonus payable in the year; a deferred cash bonus; and in the form of restricted stock payable in the following year to the extent shares are available for issuance under the Company's equity incentive plans. Any deferred cash bonus and restricted stock will vest, and be paid in the case of the deferred cash bonus, subject to the participant's continued employment or continued service with the Company, in three substantially equal installments over a three year period. To the extent shares are not available under the Company's equity incentive plans, the equity bonus will be paid as a deferred cash bonus.

As of September 30, 2012, 70.0% of the fiscal 2012 AICP pool has been allocated. The remaining 30.0% may be allocated to the Company's other executives and employees at the discretion of the Committee. Of the allocated fiscal 2012 AICP pool, 50.0% is payable as a cash bonus in 2013, 25.0% as a deferred cash bonus and 25.0% as restricted stock.

For the three and nine months ended September 30, 2012, the Company has recorded expense of $0.1 million and $0.3 million for the estimated cash amounts earned for the allocated portion of this plan based on the Formulaic Component. No expenses have have been recorded based on the Discretionary Component. Any amounts earned for restricted stock will be recorded over the vesting period.

Long-Term Equity Performance Compensation

In March 2012, the Company adopted a performance-based multi-year Outperformance Plan (the "OPP"), in which the Company's executive officers, Chairman and other select key employees may participate. Participants will be able to potentially earn additional compensation only upon the attainment of stockholder value creation targets.

Under the OPP agreements, participants are eligible to earn performance-based bonus awards equal to a percentage of a pool funded up to a maximum award opportunity equal to 5.0% of the Company's equity market capitalization of $1.9 billion upon the Listing (the "OPP Cap"). Subject to the OPP Cap, the pool will equal an amount to be determined based on the Company's total return to stockholders (including both share price appreciation and common stock distributions) ("Total Return"), for the three-year performance period consisting of:

- Absolute Component: 4.0% of any excess Total Return attained above an absolute hurdle of 7.0% per annum, non-compounded (i.e., a Total Return threshold of 21.0% for the performance period); and

- Relative Component: 4.0% of any excess Total Return attained above the Total Return for the performance period of a peer group comprised of the following companies: CapLease, Inc.; Entertainment Properties Trust, Inc.; Getty Realty Corporation; Lexington Realty Trust; National Retail Properties, Inc. and Realty Income Corporation.

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Awards under the OPP are dependent on achieving an annual hurdle, an interim (two-year) hurdle and then the aforementioned three-year hurdle.

In order to further ensure that the interests of participants in the OPP are aligned with the Company's investors, the Relative Component is subject to a ratable sliding scale factor as follows:

- 100.0% will be earned if the Company attains a cumulative Total Return of 6.0% per annum or higher, non-compounded (i.e., attainment of a Total Return threshold of 18.0% for the performance period);
- 50.0% will be earned if the Company attains a cumulative Total Return of 0.0% or greater but less than 6.0% per annum;
- 0.0% will be earned if we attain a cumulative Total Return of less than 0.0%; and
- A percentage from 50.0% to 100.0% calculated by linear interpolation will be earned if the Company's cumulative Total Return is between 0.0% and 6.0% per annum.

For each year during the performance period a portion of the OPP Cap equal to a maximum of up to 1.0% of the Company's equity market capitalization of $1.9 billion upon the Listing will be “locked-in” for funding of the OPP pool based upon the attainment of pro-rata performance of the performance hurdles set forth above for the applicable year. In addition, a portion of the OPP Cap equal to a maximum of up to 2.5% of the Company's equity market capitalization upon the Listing will be “locked-in” for funding of the OPP pool based upon the attainment of cumulative pro-rata performance of the performance hurdles set forth above over years one and two of the performance period, which if achieved, will supersede and negate any prior “locked-in” portion based upon performance in years one and two of the performance period (i.e., a maximum award opportunity equal to a maximum of up to 2.5% of the Company's equity market capitalization upon the Listing may be “locked-in” through the end of the second year of the performance period).

Following the performance period, the Absolute Component and the Relative Component will be calculated separately and then added together to determine the aggregate OPP pool, which will be the lesser of the sum of the two components and the OPP Cap. At September 30, 2012, 70.0% of the pool has been allocated. The remaining 30.0% will be paid only if the Merger is consummated.

Any awards earned under the OPP agreements will be issued in the form of LTIP Units, which represent units of partnership interest in the OP that are structured as a profits interest in the OP. Subject to the participant's continued employment or service through each vesting date, a portion of any LTIP Units earned will vest on the last day of the performance period and the remainder will vest over a two year period thereafter. This vesting period is intended to create, in the aggregate, up to a five-year retention period with respect to the individuals party to an OPP agreement.

For the three and nine months ended September 30, 2012, the Company has recorded expense of $0.6 million and $1.5 million, respectively, for the allocated portion of the OPP agreements.

The consummation of the Merger will represent a change in control under the AICP and OPP, and participants will be eligible to receive cash bonus awards as equitably adjusted in accordance with the AICP and OPP to reflect the shortened plan year, paid in one lump-sum within 45 days following the change in control. Based on performance as of August 21, 2012, and measured based on an assumed transaction price in the Merger of $12.05 per share of the Company's common stock, a third party independent compensation consulting firm has determined that the current estimated value of the AICP is $9.3 million and the estimated value of the OPP agreement is $22.2 million. In connection with entering into the Merger Agreement, the Company and the Board of Directors agreed, subject to the consummation of the Merger, that the value of the awards issuable under the AICP and the OPP agreements will be capped and reduced to an aggregate value not to exceed $22.0 million.

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In connection with the reduction and cap as required under the Merger Agreement, on September 6, 2012, the Company entered into OPP amendments (the "OPP Amendments") with participants in the OPP. Pursuant to the OPP Amendments, subject to the consummation of the transactions contemplated under the Merger Agreement, effective as of immediately prior to the Effective Time, the number of vested and earned LTIP Units under the OPP Agreements would be based on a reduced aggregate value of $19.0 million divided by $11.506 (the average closing trading price of the Company's common stock during the ten-day trading period ending August 31, 2012). As a result, under the OPP Amendments, participants in the OPP would have earned an aggregate of 1,651,312 fully vested LTIP Units in connection with the consummation of the Merger. Subsequent to the execution of the Merger Agreement, the amounts that will be earned by participants in the OPP under the OPP Agreements in connection with the consummation of the Merger were further reduced to an aggregate of 1,608,534 fully vested LTIP Units, and the remainder of the LTIP Units granted under the OPP Agreements will be automatically canceled and forfeited without payment of any consideration.

The OPP Amendments also provide that on the date on which the Effective Time occurs, the Company will pay to AICP participants reduced lump sum cash payments in the aggregate amount of $3.0 million in full satisfaction of any rights they may have under the AICP, less applicable withholding.

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 exercise price for all stock options granted under the Plan was fixed at $10.00 per share until the termination of the IPO, and thereafter the exercise price for stock options granted to its 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, 2012 and December 31, 2011, the Company had granted options to purchase 27,000 shares of common stock at $10.00 per share, each with a two year vesting period and an expiration of 10 years. A total of 1.0 million shares of common stock 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. During the nine months ended September 30, 2012 and 2011, no options were forfeited or exercised, and no shares became vested. As of September 30, 2012 and December 31, 2011, unvested options to purchase zero and 9,000 shares of common stock at $10.00 per share remained outstanding with a weighted average contractual remaining life of 6.5 and 7.3 years, respectively.

Pursuant to, and as further described in the Merger Agreement, each option to purchase shares of Company Common Stock that is outstanding and unexercised at the Effective Time will be deemed subject to a cashless exercise and the holder of such option will be deemed to receive a number of shares of Company Common Stock equal to (i) the number of shares of Company Common Stock subject to such option, less (b) the number of shares of Company Common Stock equal in value to the aggregate exercise price of such option, assuming a fair market value of a share of Company Common Stock equal to the closing price of Company Common Stock on the last completed trading day immediately prior to the consummation of the Merger, which shares of Company Common Stock will be converted into shares of Realty Common Stock in accordance with the Merger Agreement.

Restricted Share Plan

The Company has an employee and director incentive restricted share plan (as amended, the "RSP"). The RSP provides the Company with the ability to grant awards of restricted shares to the Company's directors, officers and employees, employees of entities that provide services to the Company, directors of the entities that provide services to the Company, certain of its consultants or to entities that provide services to the Company. The total number of common shares reserved for issuance under the RSP is equal to 7.7% of the Company's authorized shares, or 18.5 million shares.

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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. Shares issued under the RSP vest immediately upon a change of control of the Company or sale of the Company's assets. 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.

Any restricted shares paid out under the AICP or OPP would be issued out of the RSP.

Common Stock Awards

	Number of Common Shares Awarded	Weighted-Average Price
Awarded, January 1, 2012	1,505,300	$10.00
Granted	114,468	10.39
Forfeited	—	—
Awarded, September 30, 2012	1,619,768	$10.03

Unvested Common Stock Awards

	Number of Common Shares	Weighted-Average Issue Price
Non-vested, January 1, 2012	1,503,500	$10.00
Granted	114,468	10.39
Vested	(1,520,017)	10.00
Non-vested, September 30, 2012	97,951	$10.44

The fair value of common stock awards to employees is determined on the grant date using the closing stock price on NASDAQ that day. The fair value of common stock awards to non-employees is determined based on the fair value of the stock at the vesting date.

Prior to March 1, 2012, 1.5 million restricted shares had been issued to independent directors and the Former Advisor. Upon the Listing on March 1, 2012, all unvested restricted shares that had previously been granted became fully vested.

Total share-based compensation expense related to common stock awards for the three and nine months ended September 30, 2012 was $0.2 million and $13.3 million, respectively, with $0.2 million and $0.5 million recognized in equity-based compensation expense for the three and nine months ended September 30, 2012, and $12.9 million charged to listing, internalization and merger expense for the nine months ended September 30, 2012. At September 30, 2012, share-based compensation expense of $0.9 million related to non-vested common stock awards is expected to be recognized over a weighted average period of 3.4 years.

Pursuant to, and as further described in the Merger Agreement, each share of the Company's restricted stock outstanding as of immediately prior to the Effective Time will be accelerated and become fully vested and will convert into shares of Realty Common Stock in accordance with the Merger Agreement.

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Note 17 — Net Loss Per Share

The following is a summary the income and share data used in the basic and diluted net loss per share computations for the three and nine months ended September 30, 2012 and 2011 (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss attributable to stockholders	$(64,495)	$(5,661)	$(88,296)	$(19,700)
Less: dividends paid on unvested restricted stock	(14)	(247)	(271)	(736)
	$(64,509)	$(5,908)	$(88,567)	$(20,436)
Weighted average common shares outstanding applicable to basic and diluted net loss per share	158,476,895	173,086,969	165,271,199	119,235,958
Net loss per share attributable to stockholders, basic and diluted	$(0.41)	$(0.03)	$(0.54)	$(0.17)

As of September 30, 2012, 27,000 stock options, 65,789 OP units and 0.1 million unvested restricted shares were outstanding; as of September 30, 2011, 27,000 stock options and 1.5 million unvested restricted shares were outstanding. These items were not included in the calculation of diluted net loss per share for the three and nine months ended September 30, 2012 and 2011 since the effect of their inclusion would have been anti-dilutive.

Note 18 — Non-controlling Interests

As of September 30, 2012, AREP invested $0.8 million in the OP in exchange for 65,789 OP units and admission as a limited partner in the OP. As a holder of OP units, AREP is entitled to receive dividends from the OP equivalent to the amount received by common stockholders, and AREP has the right, subject to certain limitations, to exchange the OP units for cash or, at the option of the Company, an equivalent amount of common stock of the Company. In connection with this investment in the OP, AREP agreed to restore a deficit balance in its capital account in the event of a liquidation of the OP. AREP also was provided with the opportunity to guarantee a portion of the OP's indebtedness, and the OP agreed to maintain a certain amount of indebtedness for AREP to guarantee. As of September 30, 2012, no guarantees have been issued by AREP.

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 within the Company’s financial statements.

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The following table summarizes the activity related to investment arrangements with unaffiliated third parties (dollar amounts in thousands):

Property/ Portfolio Name	No. of Buildings	Investment Date	Net Investment Amount	Third Party Ownership Percentage	Total Assets Subject to Investment Agreement	Total Liabilities Subject to Investment Agreement	Distributions Three Months Ended September 30,		Nine Months Ended September 30,	
							2012	2011	2012	2011
Walgreens	1	Jul. 2009	$1,068	44 %	$3,367	$1,550	$(20)	$(20)	$(60)	$(60)
FedEx/ PNC Bank [1]	2	Jul. 2009 to Jan. 2010	1,928	47 %	10,902	8,888	(41)	(42)	(125)	(126)
PNC Bank	1	Sep. 2009	444	35 %	3,210	2,273	(9)	(9)	(26)	(27)
CVS	3	Jan. 2010 to Mar. 2010	2,577	49 %	10,282	6,608	(49)	(49)	(147)	(147)
Reckitt Benckiser [2]	—	Feb. 2010	—	— %	—	—	(79)	(53)	(166)	(158)
FedEx III [3]	—	Apr. 2010	—	— %	—	—	(73)	(65)	(202)	(194)
BSFS	6	Jun. 2010 to Sep. 2010	6,468	49 %	11,623	—	(128)	(128)	(384)	(383)
Brown Shoe/Payless [4]	—	Oct. 2010	—	— %	—	—	—	(136)	(241)	(407)
Jared Jewelry	1	May 2010	500	25 %	1,522	—	(9)	(9)	(29)	(26)
Total	14		$12,985		$40,906	$19,319	$(408)	$(511)	$(1,380)	$(1,528)

(1) Non-controlling interest of $0.1 million was repaid in September 2012.
(2) Non-controlling interest of $2.4 million was repaid in September 2012.
(3) Non-controlling interest of $3.0 million was repaid in September 2012.
(4) Non-controlling interest of $6.0 million was repaid in May 2012.

Note 19 — Subsequent Events

The Company has evaluated subsequent events through the filing of this Quarterly Report on Form 10-Q, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements except for the following:

Completion of Property Acquisitions

The following table presents certain information about the properties that the Company acquired from October 1, 2012 to October 28, 2012 (dollar amounts in thousands):

	No. of Buildings	Square Feet	Base Purchase Price [1]
Total portfolio – October 1, 2012	507	15,754,221	$2,153,961
Acquisitions	1	10,000	$1,032
Total portfolio – October 28, 2012	508	15,764,221	$2,154,993

(1) Contract purchase price, excluding acquisition and transaction related costs.

The acquisition made subsequent to September 30, 2012 was made in the normal course of business and was not individually significant to the total portfolio.

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AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012
(Unaudited)

Financing Arrangements

From October 1, 2012 through October 28, 2012, the Company drew an additional $79.1 million on the RBS Facility.

Increase in Interest in Subsidiaries

From October 1, 2012 through October 28, 2012, non-controlling interests of $10.6 million were repaid to investors.

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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. Prior to March 1, 2012, American Realty Capital Trust, Inc. was externally managed by American Realty Capital Advisors, LLC, a Delaware limited liability company (the "Former 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. (the "Company," "we," "our" or "us") 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," "should" 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.

The 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:

- The competition 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 be.
- 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.
- We may not generate cash flows sufficient to pay our distributions to stockholders, and as such we may be forced to borrow at higher rates to fund our operations.
- We may be unable to pay or maintain cash distributions or increase distributions over time.
- We are subject to risks associated with the significant dislocations and liquidity disruptions currently existing or occurring in the United States credit markets.
- We may fail to continue to qualify as a real estate investment trust for U.S. federal income tax purposes ("REIT").
- We may not derive the expected benefits from the Internalization (as defined herein) or may not derive them in the expected amount of time.
- Uncertainties related to the acquisition of the Company by Realty Income Corporation, including the timing of completion of the Merger, the possibility that competing offers will be made, the possibility that various closing conditions for the Merger may not be satisfied or waived, litigation related to the Merger and the impact on the Merger of general economic and business conditions.

All forward-looking statements should be read in light of the risks identified in Part II, Item 1A of this Quarterly Report on Form 10-Q.

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Overview

We are a Maryland corporation, incorporated on August 17, 2007, that has elected to be taxed as a REIT beginning with the taxable year ended December 31, 2008. As a REIT, we generally are not subject to corporate-level income taxes. To maintain our REIT status, we are required, among other requirements, to distribute annually at least 90% of our “REIT taxable income,” as defined by the Internal Revenue Code of 1986, as amended (the “Code”), to our stockholders. If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax on our taxable income at regular corporate tax rates.

We were formed to acquire a diversified portfolio of commercial real estate, primarily freestanding single tenant properties net leased to creditworthy tenants on a long-term basis. In January 2008, we commenced an initial public offering ("IPO") on a "best efforts" basis to sell up to 150.0 million shares of common stock, excluding 25.0 million shares issuable pursuant to a Distribution Reinvestment Plan ("DRIP"), offered at a price of $10.00 per share, subject to certain volume and other discounts. In March 2008, we commenced real estate operations. Our IPO closed in July 2011 and we operated as a non-traded REIT through February 29, 2012.

Effective as of March 1, 2012, we internalized the management services previously provided to us by the Former Advisor and its affiliates, as a result of which we became a self-administered REIT managed full-time by our own management team (the "Internalization"). Concurrent with the Internalization, we listed our common stock on The NASDAQ Global Select Market ("NASDAQ") under the symbol "ARCT" (the "Listing").

To provide for an orderly transition in conjunction with the Internalization and Listing, we and the OP entered into an agreement, effective as of March 1, 2012, with our Former Advisor, a wholly-owned subsidiary of AR Capital, LLC ("ARC") that managed our day-to-day business and affairs prior to the Internalization, to terminate advisory agreement between us, the OP and the Former Advisor (the "Advisory Agreement") and provide for certain transitional services by our Former Advisor to us. See Note 14 — Related Party Transactions and Arrangements to the consolidated financial statements elsewhere in this report.

In connection with the Listing, we offered to purchase up to $220.0 million in shares of our common stock from stockholders, pursuant to a modified "Dutch Auction" cash tender offer (the "Tender Offer"). As a result of the Tender Offer, on April 4, 2012, we purchased 21.0 million shares of our common stock at a purchase price of $10.50 per share, for an aggregate cost of $220.0 million, excluding fees and expenses relating to the Tender Offer. See Note 10 — Common Stock to the consolidated financial statements elsewhere in this report.

Substantially all of our business is conducted through the OP, a Delaware limited partnership. We are the sole general partner of the OP and own over substantially all of the partnership interest in the OP. Our Former Advisor is the sole limited partner of the OP and owns less than a nominal partnership interest (non-controlling interest) in the OP. The limited partner interests have the right to convert OP units into cash or, at our option, a corresponding number of shares of common stock, as allowed by the limited partnership agreement of the OP.

As of September 30, 2012, we owned 507 properties with 15.8 million square feet of leasable area, 100% leased with a weighted average remaining lease term of 12.7 years. In constructing the portfolio, we have been committed to diversification by industry, tenant and geography.

Our strategy is to own properties leased to investment grade and other creditworthy tenants. As of September 30, 2012, 74% of our average annualized rental income, including annualized rents for properties acquired in 2012, is derived from investment grade tenants, as determined by major credit rating agencies, and approximately 90% of our average annualized rental income, including annualized rents for properties acquired in 2012, is derived from tenants that are rated by major credit rating agencies.

Real estate-related investments may be higher-yield and higher-risk investments than real properties, 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 stock, preferred stock 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. Since our inception, we have not acquired any real estate-related investments, other than investments in common stock of other REITs.

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Merger

On September 6, 2012, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Realty Income Corporation, a Maryland corporation ("Realty"), and Tau Acquisition LLC, a Delaware limited liability company and wholly owned subsidiary of Realty ("Merger Sub"). The Merger Agreement provides for the merger of our Company with and into Merger Sub (the "Merger"), with Merger Sub surviving as a wholly owned subsidiary of Realty. Our Board of Directors has unanimously approved the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement.

Pursuant to the terms and subject to the conditions set forth in the Merger Agreement, at the effective time of the Merger (the "Effective Time"), each outstanding share of common stock, par value $0.01 per share, of our common stock, will be converted into the right to receive 0.2874 shares of common stock, par value $0.01 per share, of Realty ("Realty Common Stock").

The Merger Agreement provides that any options to purchase shares of our common stock that are outstanding and unexercised at the Effective Time will be deemed subject to a cashless exercise and the holder thereof will be deemed to receive a number of shares of our common stock equal to (a) the number of shares of our common stock subject to each such option, less (b) the number of shares of our common stock equal in value to the aggregate exercise price of each option, assuming a fair market value of a share of our common stock equal to the closing price of the our common stock on the last completed trading day immediately prior to the consummation of the Merger, which shares of our common stock will be converted into the right to receive 0.2874 shares of Realty Common Stock. In addition, immediately prior to the Effective Time, the vesting of each share of our restricted stock will be accelerated, and each such share will be converted into the right to receive 0.2874 shares of Realty Common Stock.

We and Realty have made certain customary representations and warranties to each other in the Merger Agreement. We have agreed, among other things, not to solicit, initiate, knowingly encourage or facilitate any inquiry, discussion, offer or request from third parties regarding other proposals to acquire our Company and not to engage in any discussions or negotiations regarding any such proposal, or furnish to any third party non-public information regarding our Company. We have also agreed to certain other restrictions on our ability to respond to any such proposals. The Merger Agreement also includes certain termination rights for both us and Realty and provides that, in connection with the termination of the Merger Agreement, under specified circumstances, (i) we may be required to pay to Realty a termination fee of $51.0 million and/or reimburse Realty’s transaction expenses in an amount equal to $4.0 million and (ii) Realty may be required to reimburse our transaction expenses in an amount equal to $4.0 million.

The completion of the Merger is subject to various conditions, including, among other things, the approval by our stockholders of the Merger and the other transactions contemplated by the Merger Agreement, the approval by Realty's stockholders of the issuance of Realty Common Stock in connection with the Merger and certain consents having been obtained. We and Realty filed preliminary joint proxy materials (Form S-4) with the Securities and Exchange Commission on October 1, 2012. Complete information on the Merger, including the Merger background, reasons for the Merger, who may vote, how to vote and the time and place of our stockholder meeting will be included in a definitive proxy statement to be filed in November 2012. As of September 30, 2012, we have incurred $4.9 million for legal, consulting and other expenses related to the Merger. The Merger is expected to close during in the fourth quarter of 2012 or early in the first quarter of 2013.

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.

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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, fifteen years for land 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 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 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.

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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, land improvements, buildings, fixtures 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, as applicable.

Amounts allocated to land, land improvements, buildings, improvements and fixtures are based on cost segregation studies performed by independent third-parties or on our analysis of comparable properties in our portfolio.

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 eighteen months. We also estimate costs to execute similar leases including leasing commissions, legal and other related expenses.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest rate that 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 intangibles are amortized as a decrease to rental income over the remaining term of the lease. The capitalized below-market lease values are amortized as an increase to rental income over the remaining term and any fixed rate renewal periods provided within the respective leases. In determining the amortization period for below-market lease intangibles, we initially will consider, and evaluate on a quarterly basis, the likelihood that a lessee will execute the renewal option. The likelihood that a lessee will execute the renewal option is determined 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.

The aggregate value of intangible assets related to customer relationships, as applicable, 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 5 to 30 years. The value of customer relationship intangibles, as applicable, 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.

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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 risks, even though hedge accounting does not apply or we elect not to apply hedge accounting.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are described in Note 4 — Summary of Significant Accounting Policies to our consolidated financial statements.

Results of Operations

As of September 30, 2012, we owned 507 properties that were 100% leased, compared to 405 properties at September 30, 2011. Accordingly, our results of operations for the three and nine months ended September 30, 2012, as compared to the three and nine months ended September 30, 2011, reflect significant increases in most categories.

Comparison of Three Months Ended September 30, 2012 to Three Months Ended September 30, 2011

Rental Income

Rental income increased $9.5 million to $44.4 million for the three months ended September 30, 2012, compared to $34.9 million for the three months ended September 30, 2011. The increase in rental income was driven by our acquisition of $327.8 million of net leased properties subsequent to September 30, 2011, with total square footage of 2.5 million square feet. These properties were acquired at an average 8.3% capitalization rate, defined as annualized rental income divided by base purchase price. Annualized rental income for net leases represents projected rental income for 2012, including annualized rents for properties acquired in 2012, on a straight-line basis as of September 30, 2012, which includes the effect of tenant concessions such as free rent, as applicable. For modified gross leased properties, annualized rental income represents projected rental income for 2012 on a straight-line basis as of September 30, 2012, which includes the effect of tenant concessions such as free rent, as applicable, plus operating expense reimbursement revenue less property operating expenses.

Our properties are primarily leased from 10 to 30 years to investment grade tenants, as determined by major credit rating agencies. All properties were 100% leased in both periods. During the three months ended September 30, 2012 and 2011, we experienced no property vacancy, tenant turnover, lease renegotiation or major capital expenditures. In addition, until 2011, all of the properties we owned were leased on a net basis where tenants are responsible for property operating expenses. Cash same store rents on the 368 properties held for the full period in both years increased $0.3 million, or 0.9%, to $31.5 million, compared to $31.2 million for the three months ended September 30, 2012 and 2011, respectively. Annualized average rental income per square foot was $11.16 at September 30, 2012 compared to $11.24 at September 30, 2011.

Operating Expense Reimbursements

Operating expense reimbursements increased $0.4 million to $1.7 million for the three months ended September 30, 2012, compared to $1.3 million for three months ended September 30, 2011. Operating expense reimbursements represent reimbursements for taxes, property maintenance and other charges contractually due from tenants per their respective lease agreements. The increase in operating expense reimbursements was driven by our larger real estate portfolio, including properties with modified gross leases.

Acquisition and Transaction Related Costs

Acquisition and transaction related costs decreased $5.1 million to $0.5 million for the three months ended September 30, 2012, compared to $5.6 million for the three months ended September 30, 2011. This decrease was a result of a decrease in the number of properties acquired in the three months ended September 30, 2012 compared to 2011. We have been acquiring properties on a more limited basis since our Listing in March 2012.

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Property Expenses

Property expenses increased $1.3 million to $2.8 million for the three months ended September 30, 2012, compared to $1.5 million for the three months ended September 30, 2011. Property expenses mainly represent real estate taxes, ground lease rent, insurance and repairs and maintenance expenses. The increase in property expenses was driven by our larger real estate portfolio, including properties with modified gross leases.

Fees to Affiliate

Asset Management Fee:

Prior to Internalization, our Former Advisor was entitled to fees for the management of our day-to-day operations and our properties, as well as fees for purchases and sales of properties. The Former Advisor was paid $1.0 million for fees incurred during the three months ended September 30, 2011. The Former Advisor elected to waive $3.3 million of asset management fees for the three months ended September 30, 2011. During three months ended September 30, 2012, no such fees were incurred.

Property Management Fee:

Prior to the Internalization, our former property manager, an affiliate of our Former Advisor, was entitled to fees to manage and lease our properties. The former property manager elected to waive $0.7 million of property management fees for the three months ended September 30, 2011. During three months ended September 30, 2012, no such fees were incurred.

General and Administrative Expenses

General and administrative expenses increased $1.2 million to $1.6 million for the three months ended September 30, 2012, compared to $0.4 million for the three months ended September 30, 2011. The increase in general and administrative expenses primarily related to amounts that were paid by the Former Advisor prior to our Internalization in March 2012, and include salaries and benefits of $0.6 million, an increase in professional fees of $0.3 million and an increase in other costs of $0.3 million.

Equity-Based Compensation Expense

Equity-based compensation expenses increased $0.4 million to $0.8 million for the three months ended September 30, 2012, compared to $0.4 million for the three months ended September 30, 2011. The increase in equity-based compensation is primarily related to the adoption of equity-based incentive compensation arrangements in March 2012.

Depreciation and Amortization Expense

Depreciation and amortization expense increased $6.5 million to $26.3 million for the three months ended September 30, 2012, compared to $19.8 million for the three months ended September 30, 2011. The increase in depreciation and amortization expense was the result of our acquisition of real estate subsequent to September 30, 2011. These properties were placed into service when acquired and are being depreciated for the period held.

Expenses Related to the Listing, Internalization and Merger

As a result of the Listing and the Internalization, and in connection with entering into the Merger Agreement, we incurred certain expenses totaling $68.1 million for the three months ended September 30, 2012. Of these expenses, $63.2 million related to the Incentive Listing Fee (explained further below) and $4.9 million related to professional services fess related to entering into the Merger Agreement.

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Incentive Listing Fee:

In connection with the Listing, ARC is entitled to a subordinated incentive listing fee equal to 15.0% of the Excess Value Amount. The Excess Value Amount is defined as the amount, if any, by which (a) the market value of our common stock, based on the average market value of the shares issued and outstanding at March 1, 2012 over the 30 trading days beginning August 28, 2012, which is the 181st day after the shares were first listed on NASDAQ ("Seasoned Average Market Value"), plus distributions paid by us, from May 21, 2008 and prior to March 1, 2012, exceeds (b) the sum of the total amount of capital raised from stockholders during the IPO and the amount of cash flow necessary to generate a 6.0% annual cumulative, non-compounded return to such stockholders through March 1, 2012, which equates to a minimum stock price of $9.81 per share.

On October 10, 2012, the Excess Value Amount was determined to be $421.3 million resulting in the issuance of the Subordinated Incentive Listing Fee Note in the principal amount of $63.2 million. On October 10, 2012, ARC exercised its right to demand payment of the Subordinated Incentive Listing Fee Note and on October 12, 2012, we paid ARC $63.2 million, equal to the principal amount plus accrued interest, in full satisfaction of the Subordinated Incentive Listing Fee Note.

Interest Expense

Interest expense increased $0.3 million to $10.5 million for the three months ended September 30, 2012, compared to $10.2 million for the three months ended September 30, 2011. The increase in interest expense was mainly the result of interest incurred from borrowings on our revolving credit facility, which, for the three months ended September 30, 2012, had a weighted average balance of $180.8 million at a weighted average effective annualized interest rate of 2.47% as of September 30, 2012. The overall increase in interest expense was partially offset by savings realized from the replacement in April 2012 of $161.2 million of mortgage debt with an average interest rate of 5.43% with financing from a note payable bearing interest at an effective annualized rate of 2.61%.

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

Equity in Income of Unconsolidated Joint Venture

Equity in income of unconsolidated joint venture was $22,000 for the three months ended September 30, 2011. This income represents our share of the profit and loss in a joint venture real estate investment that we had with an affiliated entity. We had no such income for the three months ended September 30, 2012, as we redeemed our investment in the second quarter of 2012.

Other Income, Net

Other income, net decreased $0.1 million to $0.3 million for the three months ended September 30, 2012, compared to $0.4 million for the three months ended September 30, 2011. The decrease in other income was a result of a decrease in interest income on money market investments of $0.4 million as a result of our lower average cash balance, partially offset by $0.3 million of dividend income from our common stock investments, which we first obtained in September 2011.

Loss on Derivative Instruments

There was no gain or loss on the fair value of derivative instruments for the three months ended September 30, 2012, compared to a loss of $3.1 million for the three months ended September 30, 2011 that resulted from marking our

derivative instruments to fair value. The decrease in loss was primarily a result of a lower notional balance of derivatives held in the three months ended September 30, 2012 compared to the three months ended September 30, 2011.

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Comparison of Nine Months Ended September 30, 2012 to Nine Months Ended September 30, 2011

Rental Income

Rental income increased $48.9 million to $132.6 million for the nine months ended September 30, 2012, compared to $83.7 million for the nine months ended September 30, 2011. The increase in rental income was driven by our acquisition of $327.8 million of net leased properties subsequent to September 30, 2011, with total square footage of 2.5 million square feet. These properties were acquired at an average 8.3% capitalization rate, defined as annualized rental income divided by base purchase price. Annualized rental income for net leases represents projected rental income for 2012, including annualized rents for properties acquired in 2012, on a straight-line basis as of September 30, 2012, which includes the effect of tenant concessions such as free rent, as applicable. For modified gross leased properties, annualized rental income represents projected rental income for 2012 on a straight-line basis as of September 30, 2012, which includes the effect of tenant concessions such as free rent, as applicable, plus operating expense reimbursement revenue less property operating expenses.

Our properties are primarily leased from 10 to 30 years to investment grade tenants, as determined by major credit rating agencies. All properties were 100% leased in both periods. During the nine months ended September 30, 2012 and 2011, we experienced no property vacancy, tenant turnover, lease renegotiation or major capital expenditures. In addition, until 2011, all of the properties we owned were leased on a net basis where tenants are responsible for property operating expenses. Cash same store rents on the 259 properties held for the full period in both years increased $0.3 million to $51.8 million, compared to $51.5 million for the nine months ended September 30, 2012 and 2011, respectively. Annualized average rental income per square foot was $11.16 at September 30, 2012 compared to $11.24 at September 30, 2011.

Operating Expense Reimbursements

Operating expense reimbursements increased $2.4 million to $4.7 million for the nine months ended September 30, 2012, compared to $2.3 million for nine months ended September 30, 2011. Operating expense reimbursements represent reimbursements for taxes, property maintenance and other charges contractually due from tenants per their respective lease agreements. The increase in operating expense reimbursements was driven by our larger real estate portfolio, including properties with modified gross leases.

Acquisition and Transaction Related Costs

Acquisition and transaction related costs decreased $22.2 million to $1.2 million for the nine months ended September 30, 2012, compared to $23.4 million for the nine months ended September 30, 2011. This decrease was a result of a decrease in the number of properties acquired in the nine months ended September 30, 2012 compared to 2011. We have been acquiring properties on a more limited basis since our Listing in March 2012.

Property Expenses

Property expenses increased $4.8 million to $7.5 million for the nine months ended September 30, 2012, compared to $2.7 million for nine months ended September 30, 2011. The increase in property expenses was driven by our larger real estate portfolio, including properties with modified gross leases.

Fees to Affiliate

Asset Management Fee:

Prior to Internalization, our Former Advisor was entitled to fees for the management of our day-to-day operations and our properties, as well as fees for purchases and sales of properties. The Former Advisor was paid $3.5 million during nine months ended September 30, 2012 for fees incurred in January and February 2012. The Former Advisor was paid $2.6 million for fees incurred during the nine months ended September 30, 2011. The Former Advisor elected to waive $7.6 million of asset management fees for the nine months ended September 30, 2011.

Property Management Fee:

Prior to the Internalization, our former property manager, an affiliate of our Former Advisor, was entitled to fees to manage and lease our properties. The former property manager was paid $0.6 million during nine months ended September 30, 2012 for fees incurred in January and February 2012. The former property manager elected to waive $1.6 million of property management fees for the nine months ended September 30, 2011.

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General and Administrative Expenses

General and administrative expenses increased $5.5 million to $6.6 million for the nine months ended September 30, 2012, compared to $1.1 million for the nine months ended September 30, 2011. The increase in general and administrative expenses primarily related to amounts that were paid by our Former Advisor prior to our Internalization in March 2012 and include salaries and benefits of $1.8 million, an increase in professional fees of $1.5 million, state and local income taxes of $1.4 million and a $0.3 million increase in rent, utilities and network expenses.

Equity-Based Compensation Expense

Equity-based compensation expenses increased $0.9 million to $2.0 million for the nine months ended September 30, 2012, compared to $1.1 million for the nine months ended September 30, 2011. The increase in equity-based compensation is primarily related to the adoption of equity-based incentive compensation arrangements in March 2012.

Depreciation and Amortization Expense

Depreciation and amortization expense increased $33.5 million to $78.5 million for the nine months ended September 30, 2012, compared to $45.0 million for the nine months ended September 30, 2011. The increase in depreciation and amortization expense was the result of our acquisition of real estate subsequent to September 30, 2011. These properties were placed into service when acquired and are being depreciated for the period held.

Expenses Related to the Listing, Internalization and Merger

As a result of the Listing and the Internalization, and in connection with entering into the Merger Agreement, we incurred certain expenses totaling $85.8 million for the nine months ended September 30, 2012. Of these expenses, $63.2 million related to the Incentive Listing Fee (see a description of the Incentive Listing Fee in Comparison of Three Months Ended September 30, 2012 to Three Months Ended September 30, 2011), $12.9 million related to the vesting of previously issued restricted shares that became fully vested upon the Listing, $4.9 million related to professional services fess related to entering into the Merger Agreement, $3.3 million related to contract termination fees paid to the Former Advisor to terminate the Advisory Agreement with us and $1.5 million related to Internalization transition costs.

Interest Expense

Interest expense increased $4.5 million to $30.4 million for the nine months ended September 30, 2012, compared to $25.9 million for the nine months ended September 30, 2011. The increase in interest expense was mainly the result of interest incurred from borrowings on our revolving credit facility, which, for the nine months months ended September 30, 2012, had a weighted average balance of $131.2 million at a weighted average effective annualized interest rate of 2.47% as of September 30, 2012. The overall increase in interest expense was partially offset by a decrease in the average first mortgage debt balance from $643.2 million for the nine months ended September 30, 2011 to $576.3 million for nine months ended September 30, 2012. This was a mainly result of the replacement in April 2012 of $161.2 million of mortgage debt with an average interest rate of 5.43% with financing from a note payable bearing interest at a lower effective annualized rate of 2.61%, which further offset the increase in interest rate expense.

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

Extinguishment of Debt

We incurred $6.9 million of expenses during the nine months ended September 30, 2012, compared to $0.7 million during the nine months ended September 30, 2011. The expenses for the nine months ended September 30, 2012 were in connection with the extinguishment of outstanding mortgage note indebtedness of $161.2 million, which we prepaid in April 2012. Of these expenses, $4.6 million related to prepayment fees, derivative instrument termination fees and write-offs of discounts on the related debt and $2.3 million resulted from the write-off of related deferred financing costs. The expenses for the nine months ended September 30, 2011 were in connection with the repayment of long-term notes payable in May 2011 and mainly related to the write-offs of deferred financing costs on the related debt.

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Equity in Income of Unconsolidated Joint Venture

Equity in income of unconsolidated joint venture decreased $35,000 to $36,000 for the nine months ended September 30, 2012, compared to $71,000 for the nine months ended September 30, 2011. This income represents our share of the profit and loss in a joint venture real estate investment that we had with an affiliated entity. The equity in income of the unconsolidated joint venture decreased due to the redemption of our investment in the second quarter of 2012.

Other Income, Net

Other income, net was $2.0 million for the nine months ended September 30, 2012, as compared to $0.5 million for the nine months ended September 30, 2011. Other income, net for the nine months ended September 30, 2012 was primarily related to $1.2 million of gain on our redemption of our investment in the unconsolidated joint venture in the second quarter of 2012 and $0.8 million of dividend income from our common stock investments, which we first obtained in September 2011. Other income, net for the three months ended September 30, 2011 was primarily related to interest income on money market investments.

Loss on Derivative Instruments

Loss on the fair value of derivative instruments was $4.1 million for the nine months ended September 30, 2012 compared to a loss of $3.0 million for the nine months ended September 30, 2011. In March 2012, we reclassified $4.5 million from other comprehensive income for derivative instruments related to mortgages for which we had made an irrevocable election to prepay and subsequently repaid in April 2012. This was partially offset by a $0.5 million change in the fair value of derivative instruments. For the nine months ended September 30, 2011, the loss was related to marking our derivative instruments to fair value.

Loss on Disposition of Property

Loss on the disposition of property of $44,000 for the nine months ended September 30, 2011 was realized from the sale of a property leased to PNC Bank in January 2011.

Cash Flows for the Nine Months Ended September 30, 2012

During the nine months ended September 30, 2012, net cash provided by operating activities was $85.6 million. The level of cash flows provided by operating activities is affected by acquisition and transaction costs incurred and the timing of interest payments and amount of borrowings outstanding during the period. It is also affected by the receipt of scheduled rent payments. Net cash provided by operating activities primarily relates to net income adjusted for non-cash items of $13.7 million, an increase in accounts payable and accrued expenses of $66.8 million and a decrease in prepaid expenses and other assets of $7.7 million, partially offset by a decrease in deferred rent and other liabilities of $2.6 million due to the timing of the receipt of rental payments.

Net cash used in investing activities during the nine months ended September 30, 2012 was $37.9 million. Cash used in investing activities was related to $43.2 million for acquisitions, $5.5 million of investments in other assets and $1.5 million of capital expenditures, partially offset by $12.4 million of distributions received from our unconsolidated joint venture during the nine months ended September 30, 2012.

Net cash used in financing activities totaled $75.3 million during the nine months ended September 30, 2012. Cash used in financing activities primarily relates to the repurchase of shares of common stock in the amount of $220.0 million pursuant to our Tender Offer, payments on mortgage notes of $162.8 million, distributions to common

stockholders of $80.1 million, payments on revolving credit facilities of $77.1 million, increase in interest in subsidiaries of $11.6 million, payments relating to equity transactions of $10.6 million, payments on extinguishment of debt of $7.9 million, payments of financing costs of $5.9 million, payments for other common stock repurchases of $2.9 million and distributions to non-controlling interest holders of $1.4 million. These payments were partially offset by proceeds from the revolving credit facilities of $269.4 million, proceeds from a short-term note of $235.0 million and contributions from non-controlling interest holders of $0.8 million.

Cash paid for interest during the nine months ended September 30, 2012 was $25.5 million.

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Cash Flows for the Nine Months Ended September 30, 2011

During the nine months ended September 30, 2011, net cash provided by operating activities was $43.5 million. The level of cash flows provided by operating activities is affected by acquisition and transaction costs incurred and the timing of interest payments and amount of borrowings outstanding during the period. It is also affected by the receipt of scheduled rent payments. Net cash provided by operating activities primarily relates to net loss adjusted for non-cash items of $33.5 million as well as an increase in accounts payable and accrued expenses of $21.8 million and an increase in deferred rent of $0.6 million due to the timing of the receipt of rental payments, partially offset by an increase in prepaid expenses and other assets of $12.4 million, principally resulting from an increase in accounts receivable for straight-line rent of $5.8 million and an increase in receivables from affiliates of $6.8 million during the nine months ended September 30, 2011.

Net cash used in investing activities during the nine months ended September 30, 2011, was $936.7 million. Cash used in investing activities was principally related to $920.0 million for acquisitions, $17.6 million for investment securities purchased, and $0.3 million for capital expenditures, partially offset by $0.6 million of distributions received from an unconsolidated joint venture and $0.6 million of proceeds from the disposition of real estate during the nine months ended September 30, 2011.

Net cash provided by financing activities totaled $1.2 billion during the nine months ended September 30, 2011. Cash provided by financing activities in 2011 was used for property acquisitions. Cash provided by financing activities were mainly due to proceeds from the issuance of our common stock of $991.4 million and the net proceeds from mortgage notes payable after the effect of principal repayments of $235.0 million, partially offset by distributions to common stockholders of $31.6 million, payments of financing costs of $18.8 million, the repayment of long-term notes payable of $12.8 million, payments for common stock redemptions of $6.4 million, increases in restricted cash of $2.6 million and distributions to non-controlling interest holders of $1.5 million.

Cash paid for interest during the nine months ended September 30, 2011 was $22.4 million.

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Liquidity and Capital Resources

On March 1, 2012, we successfully listed our common stock on NASDAQ under the symbol "ARCT."

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, and for the payment of principal and interest on our outstanding indebtedness. We expect to meet our future short-term operating liquidity requirements through net cash provided by our current property operations. Management expects that 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, 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 offerings, proceeds from the sale of properties and undistributed funds from operations. With the stabilization of the investment portfolio, we expect to significantly increase the amount of cash flow generated from operating activities in future periods. Such increased cash flow will positively impact the amount of funds available for dividends.

As of September 30, 2012, we had $5.8 million of cash and cash equivalents and $20.2 million of marketable securities on hand.

Sources of Funds

Funds from Operations and Adjusted Funds from Operations

Due to certain unique operating characteristics of real estate companies, as discussed below, the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"), an industry trade group, has promulgated a measure known as funds from operations ("FFO"), which we believe to be an appropriate supplemental measure to reflect the operating performance of a REIT. The use of FFO is recommended by the REIT industry as a supplemental performance measure. FFO is not equivalent to our net income or loss as determined under accounting principles generally accepted in the United States of America ("GAAP").

We define FFO, a non-GAAP measure, consistent with the standards established by the White Paper on FFO approved by the Board of Governors of NAREIT, as revised in February 2004 (the "White Paper"). The White Paper defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property but including asset impairment writedowns, plus depreciation and amortization, after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO. Our FFO calculation complies with NAREIT’s policy described above.

The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time, especially if such assets are not adequately maintained or repaired and renovated as required by relevant circumstances and/or is requested or required by lessees for operational purposes in order to maintain the value disclosed. We believe that, since real estate values historically rise and fall with market conditions, including inflation, interest rates, the business cycle, unemployment and consumer spending, presentations of operating results for a REIT using historical accounting for depreciation may be less informative. Historical accounting for real estate involves the use of GAAP. Any other method of accounting for real estate such as the fair value method cannot be construed to be any more accurate or relevant than the comparable methodologies of real estate valuation found in GAAP. Nevertheless, we believe that the use of FFO, which excludes the impact of real estate related depreciation and amortization, provides a more complete understanding of our performance to investors and to management, and when compared year over year, reflects the impact on our operations from trends in occupancy rates, rental rates, operating costs, general and administrative expenses, and interest costs, which may not be immediately apparent from net income. We also add

back to net income deriving FFO certain costs associated with the Listing and Internalization and mortgage prepayment as these expenses and losses do not properly reflect our operating performance for the current period. However, FFO and adjusted funds from operations ("AFFO"), as described below, should not be construed to be more relevant or accurate than the current GAAP methodology in calculating net income or in its applicability in evaluating our operating performance. The method utilized to evaluate the value and performance of real estate under GAAP should be construed as a more relevant measure of operational performance and considered more prominently than the non-GAAP FFO and AFFO measures and the adjustments to GAAP in calculating FFO and AFFO.

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We consider FFO, and AFFO, which is FFO as adjusted to exclude acquisition-related fees and expenses, amortization of above-market lease assets and liabilities, amortization of deferred financing costs, straight-line rent, non-cash mark-to-market adjustments, amortization of restricted stock, equity-based compensation and non-recurring gains and losses, or AFFO, useful indicators 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 predictably 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.

Additionally, we believe that AFFO, by excluding acquisition-related fees and expenses, amortization of above-market lease assets and liabilities, amortization of deferred financing costs, straight-line rent, non-cash mark-to-market adjustments, amortization of restricted stock, equity-based compensation and non-recurring gains and losses, provides information consistent with management's analysis of the operating performance of the properties. By providing AFFO, we believe we are presenting useful information that assists investors and analysts to better assess the sustainability of our operating performance. Further, we believe AFFO is useful in comparing the sustainability of our operating performance with the sustainability of the operating performance of other real estate companies, including exchange-traded and non-traded REITs.

As a result, we believe that the use of FFO and AFFO, 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.

FFO and AFFO are non-GAAP financial measures and do not represent net income as defined by GAAP. FFO and AFFO 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 alternatives to net income, as determined in accordance with GAAP, for purposes of evaluating our operating performance. Other REITs may not define FFO in accordance with the current NAREIT definition (as we do) or may interpret the current NAREIT definition differently than we do and/or calculate AFFO differently than we do. Consequently, our presentation of FFO and AFFO may not be comparable to other similarly titled measures presented by other REITs.

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The below table reflects the items deducted or added to net loss in our calculation of FFO and AFFO for the three and nine months ended September 30, 2012 and 2011 (in thousands). Items are presented net of non-controlling interest portions where applicable.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012 [1]	2011
Net loss attributable to stockholders (in accordance with GAAP)	$(64,495)	$(5,661)	$(54,622)	$(19,700)
Non-cash mark-to-market adjustments	—	3,114	(465)	2,991
Listing, internalization and merger expenses	68,106	—	68,497	—
Debt extinguishment expenses	—	—	276	720
Depreciation and amortization	25,938	19,591	77,504	44,310
Loss on disposition of property	—	—	—	44
Other non-cash losses	—	—	—	102
FFO	29,549	17,044	91,190	28,467
Acquisition related expenses	534	5,554	1,233	23,374
Amortization of below-market lease liabilities	(76)	(76)	(228)	(228)
Amortization of deferred financing costs	1,139	1,492	3,029	3,641
Straight-line rent	(1,842)	(1,725)	(5,684)	(4,349)
Equity-based compensation	798	375	2,088	1,099
AFFO	$30,102	$22,664	$91,628	$52,004

(1) As adjusted, see reconciliation below for the three months ended March 31, 2012. Adjustments relate to the Listing and Internalization, as well as to normalize periodic expenses based on the Company's anticipated expense structure subsequent to the Internalization.

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	January and February 2012	March 2012	Three Months Ended March 31, 2012	Adjustments [1]	Adjusted Three Months Ended March 31, 2012	Three Months Ended June 30, 2012	Three Months Ended September 30, 2012	Adjusted Nine Months Ended September 30, 2012
Revenues:								
Rental income	$29,386	$14,694	$44,080		$44,080	$44,110	$44,400	$132,590
Operating expense reimbursements	1,023	511	1,534		1,534	1,538	1,662	4,734
Total revenues	30,409	15,205	45,614		45,614	45,648	46,062	137,324
Operating expenses:								
Acquisition and transaction related	261	380	641	(641)	—	58	534	592
Property operating	1,793	896	2,689		2,689	1,993	2,797	7,479
Fees to affiliate	4,152	—	4,152	(4,152)	—	—	—	—
General and administrative	902	1,082	1,984	(599)	1,385	3,030	1,586	6,001
Equity-based compensation	251	256	507	133	640	650	798	2,088
Depreciation and amortization	17,344	8,714	26,058		26,058	26,154	26,309	78,521
Listing, internalization and merger	—	17,269	17,269	(17,269)	—	391	68,106	68,497
Total operating expenses	24,703	28,597	53,300		30,772	32,276	100,130	163,178
Operating income (loss)	5,706	(13,392)	(7,686)		14,842	13,372	(54,068)	(25,854)
Other income (expenses):								
Interest expense	(6,440)	(3,417)	(9,857)		(9,857)	(10,078)	(10,512)	(30,447)
Extinguishment of debt	—	(6,626)	(6,626)	6,626	—	(276)	—	(276)
Equity in income from unconsolidated joint venture	14	8	22		22	14	—	36
Other income, net	176	88	264		264	1,452	264	1,980
Gain (loss) on derivative instruments	—	(4,046)	(4,046)	4,520	474	(9)	—	465
Total other expenses, net	(6,250)	(13,993)	(20,243)		(9,097)	(8,897)	(10,248)	(28,242)
Net income (loss)	(544)	(27,385)	(27,929)		5,745	4,475	(64,316)	(54,096)
Net income attributable to noncontrolling interests	(96)	(48)	(144)		(144)	(203)	(179)	(526)
Net income (loss) attributable to stockholders	(640)	(27,433)	(28,073)		5,601	4,272	(64,495)	(54,622)
Net income per share [2]					$0.03	$0.03	$(0.41)	$(0.35)
Funds from operations:								
Add: Non-cash mark-to-market adjustments	—	4,046	4,046	(4,520)	(474)	9	—	(465)
Add: Listing, internalization and merger expenses	—	17,269	17,269	(17,269)	—	391	68,106	68,497
	—	6,626	6,626	(6,626)	—	276	—	276

Add: Debt extinguishment expenses								
Add: Depreciation and amortization	17,113	8,665	25,778		25,778	25,788	25,938	77,504
Funds from operations	16,473	9,173	25,646		30,905	30,736	29,549	91,190
Funds from operations per share [2]					$0.19	$0.19	$0.19	$0.57
Adjusted funds from operations:								
Add: Acquisition related expenses	641	—	641		641	58	534	1,233
Less: Amortization of below-market lease liabilities	(51)	(25)	(76)		(76)	(76)	(76)	(228)
Add: Amortization of deferred financing costs	558	390	948		948	942	1,139	3,029
Less: Straight-line rent	(1,316)	(645)	(1,961)		(1,961)	(1,881)	(1,842)	(5,684)
Add: Equity based compensation	251	256	507	133	640	650	798	2,088
Adjusted funds from operations	$16,556	$9,149	$25,705		$31,097	$30,429	$30,102	$91,628
Adjusted funds from operations per share [2]					$0.19	$0.19	$0.19	$0.57

(1) Adjustments made for items related to the Listing and Internalization, as well as to normalized periodic expenses.

(2) Based on 163,712,513 shares for the three months ended March 31, 2012 calculation representing the estimated weighted average shares for the three months beginning April 1, 2012, including the effect of the issuer Tender Offer. Based on 159,225,091 and 158,631,519 shares for the three months ended June 30, 2012 and September 30, 2012, respectively, on a fully diluted basis.

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Availability of Funds from Revolving Credit Facilities

We have a revolving credit facility with RBS Citizens, N.A. and a syndicate of financial institutions (the "RBS Facility") for an aggregate maximum principal amount of $330.0 million as of September 30, 2012. Additionally, the RBS Facility has an accordion feature that allows it to be increased up to a maximum of $500.0 million under certain conditions. The proceeds of loans made under the RBS Facility may be used to finance the acquisition of net leased, investment or non-investment grade occupied properties or general corporate purposes. Up to $15.0 million of the facility is available for letters of credit. The RBS Facility matures in August 2014.

The RBS Facility bears interest at the rate of (i) LIBOR with respect to Eurodollar rate loans plus a margin 2.05% to 2.85%, depending on our leverage ratio; or (ii) the greater of the federal funds rate plus 1.0% and the interest rate publicly announced by RBS Citizens, N.A. as its ‘‘prime rate’’ or ‘‘base rate’’ at such time with respect to base rate loans plus a margin of 1.25% to 1.75% depending on our leverage ratio.

The RBS Facility requires us to meet certain financial covenants, including 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, 2012, we were in compliance with the financial covenants under the RBS Facility agreement.

In the event of a default, RBS Citizens, N.A. 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 RBS Facility requires a fee of 0.15% on the unused balance if amounts outstanding under the facility are 50% or more of the total facility amount and 0.25% on the unused balance if amounts outstanding under the facility are 50% or less of the total facility amount.

As of September 30, 2012, there was $202.3 million outstanding on our RBS facility. We had letters of credit in the amount of $0.4 million under our RBS Facility at September 30, 2012. The effective annualized interest rate on our RBS Facility was 2.47% as of September 30, 2012. We had $127.3 million of unused borrowing capacity under the RBS Facility at September 30, 2012.

Capital Markets

On May 11, 2012, we filed a universal shelf registration statement on Form S-3 that permits us to sell, at any time and from time to time, in one or more offerings, an indeterminate number, principal amount or liquidation amount of common stock, preferred stock, debt securities, warrants, units or any combination thereof, up to the amount authorized by our charter. As of September 30, 2012, our charter authorized us to issue up to a maximum of 240.0 million shares of common stock (including the shares currently outstanding) and 10.0 million shares of preferred stock; however, our Board of Directors has the ability to amend our charter from time to time to increase or decrease the number of authorized shares. Net proceeds from the securities issued may be used for general corporate purposes, including the funding of our investment activity, the repayment of outstanding indebtedness, working capital or other corporate purposes. No amounts have been issued under this registration statement as of September 30, 2012.

Principal Use of Funds

Acquisitions

Generally, cash needs for property acquisitions will be met through proceeds from the sale of common stock or other securities through public or private offerings, mortgage financings, financings with our revolving credit facility or other loan arrangements. We may also from time to time enter into other agreements with third parties whereby third parties will make equity investments in specific properties or groups of properties that we acquire. Investors should be

aware that after a purchase contract that contains specific terms is executed, 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 cash and cash equivalents in certain investments that could yield lower returns than the properties. These lower returns may affect our ability to make distributions.

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Dividends

The amount of dividends 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 Code. Operating cash flows available to pay dividends are expected to increase with the stabilization of our investment portfolio.

Prior to the Listing, we paid our dividends on a daily accrual basis, at a rate equivalent to $0.70 per share per year.

In February 2012, our Board of Directors authorized and we declared an annual dividend of $0.70 per share or $0.0583 per share per month, which was paid to stockholders of record at the close of business on the 8th day of each month and payable on the 15th day of such month.

In July 2012, our Board of Directors authorized and we declared an increased annual dividend of $0.715 per share, or $0.0596 per share per month, payable, but not guaranteed, monthly to stockholders of record at the close of business on the 8th day of each month and payable on the 15th day of such month. The first dividend at such rate was paid on September 15, 2012 to stockholders of record at the close of business on September 8, 2012.

During the nine months ended September 30, 2012, dividends paid totaled $89.4 million, inclusive of $9.6 million of shares of common stock issued under the DRIP, and excluding $0.3 million paid on unvested restricted stock grants. Dividend payments are dependent on the availability of funds. Our Board of Directors may reduce the amount of dividends paid or suspend dividend payments at any time and therefore dividend payments are not assured.

The following table shows the sources for the payment of dividends to common stockholders for the three months ended March 31, 2012 and June 30, 2012, and the three and nine months ended September 30, 2012 (dollar amounts in thousands):

	Three Months Ended March 31, 2012		Three Months Ended June 30, 2012		Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Dividend	Percentage of Dividend	Dividend	Percentage of Dividend	Dividend	Percentage of Dividend	Dividend	Percentage of Dividend
Dividends:								
Dividends paid in cash	$24,125		$27,732		$27,930		$79,787	
Dividends reinvested [1]	9,589		—		—		9,589	
Total dividends	$33,714		$27,732		$27,930		$89,376	
Source of dividends:								
Cash flows provided by operations [2]	$24,125	72 %	$27,732	100 %	$27,930	100 %	$79,787	89 %
Proceeds from issuance of common stock	—	— %	—	—	—	—	—	— %
Common stock issued under the DRIP	9,589	28 %	—		$—		9,589	11 %
Total sources of dividends	$33,714	100 %	$27,732	100 %	$27,930	100 %	$89,376	100 %

Cash flows provided by operations (GAAP basis) [3]	$34,541	$25,614	$25,465	$85,620
Net income (loss) attributable to stockholders (in accordance with GAAP)	$(28,073)	$4,272	$(64,495)	$(88,296)

(1) Dividends reinvested pursuant to the DRIP, which do not impact our cash flows.

(2) Dividends paid from cash provided by operations are derived from cash flows from operations (GAAP basis) for the three and nine months ended September 30, 2012.

(3) Includes the impact of expensing acquisition and transaction related costs as incurred of $0.5 million and $1.2 million for the three and nine months ended September 30, 2012, respectively.

For the years ended December 31, 2011, 2010, 2009 and 2008, 94.1%, 84.8%, 57.3% and 100.0% of the amounts distributed by us were paid from cash flow from operations, respectively, with the balance coming from the proceeds from our IPO.

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Loan Obligations

The payment terms of our loan obligations vary. In general, interest-only 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, 2012, we were in compliance with the debt covenants under our loan agreements.

We began the process to garner a corporate credit rating and received our first rating from a major rating agency in late-2010. By early-2011, we secured a second corporate credit rating from another major rating agency. At September 30, 2012, we were rated 'Ba2' by a major rating agency and 'BB' with a stable outlook by another major rating agency. We intend to focus on improving our balance sheet and performance metrics in keeping with the rating agencies' methodologies. We intend to maintain leverage, coverage and other levels consistent with our existing ratings and to seek to have our ratings increased when appropriate.

As of September 30, 2012, we had non-recourse mortgage indebtedness secured by real estate of $511.1 million, $202.3 million outstanding on our RBS Facility and our $235.0 million Term Loan. As of September 30, 2012, the weighted average effective interest rate on the $948.5 million of total outstanding debt was 3.99%, or 4.40% on permanent debt excluding the RBS Facility, which is a revolving line of credit. The weighted average maturity of permanent debt was 4.71 years. At September 30, 2012, our leverage ratio was 33.8% (defined as total indebtedness divided by total capitalization, which includes the market value of our outstanding common stock plus debt). Our net debt-to-annualized EBITDA ratio (excluding charges related to the Listing, Internalization, Merger and mortgage prepayment) was 6.00 at September 30, 2012.

Our mortgage indebtedness of $511.1 million bore interest at a weighted average effective annualized rate of 5.22% per annum and had a weighted average maturity of 4.69 years. We may in the future incur additional mortgage debt on the properties we currently own or use long-term non-recourse financing to acquire additional properties in the future.

As of September 30, 2012, there was $202.3 million outstanding on our RBS Facility. We had letters of credit in the amount of $0.4 million under our RBS Facility at September 30, 2012. The effective annualized interest rate on our RBS Facility was 2.47% as of September 30, 2012.

In July 2012, we closed on a $235.0 million five-year term loan for which Wells Fargo is the lead arranger. This note payable bears interest at a floating rate based on our corporate leverage ratio and matures in June 2017. As of September 30, 2012, we had $235.0 million outstanding on this note, which bore interest at an effective annualized rate of 2.61%.

Contractual Obligations

The following is a summary of our contractual obligations as of September 30, 2012 (in thousands):

	Total	October 1, 2012 to December 31, 2012	2013 — 2014	2015 — 2016	Thereafter
Principal payments due on mortgage notes payable	$511,144	$443	$38,953	$327,612	$144,136
Interest payments due on mortgage notes payable	126,589	6,699	52,935	33,659	33,296

Principal payments due on note payable	235,000	—	—	—	235,000
Interest payments due on note payable	28,671	1,518	12,079	12,079	2,995
Principal payments due on revolving credit facility	202,307	—	202,307	—	—
Interest payments due on revolving credit facility	9,752	1,308	8,444	—	—
Total	$1,113,463	$9,968	$314,718	$373,350	$415,427

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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 year ending December 31, 2012.

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

Prior to the Internalization, we had agreements with ARC and its wholly-owned affiliates, whereby we paid certain fees or reimbursements to our Former Advisor or its affiliates for acquisition fees and expenses, organization and offering costs, sales commissions, dealer manager fees, asset and property management fees, financing fees and reimbursement of operating costs. See Note 14 — Related Party Transactions and Arrangements 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 had letters of credit in the amount of $0.4 million under the RBS Facility at September 30, 2012. We had $127.3 million of unused borrowing capacity under the RBS Facility at September 30, 2012.

We have no other 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.

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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 interest 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. 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, 2012, our fixed-rate debt, including debt that has interest rates that are fixed with the use of derivative instruments, had a carrying value of $561.9 million, including discounts and premiums, and a fair value of $589.2 million. Changes in market interest rates on our fixed rate debt impact fair value of the debt, but they have 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, 2012 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 $25.0 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 $26.7 million.

As of September 30, 2012, we had variable-rate debt with a carrying value of $387.3 million, excluding $54.2 million of variable rate debt that is fixed through the use of hedging instruments. The sensitivity analysis related to our variable-rate debt assumes an immediate 100 basis point move in interest rates from their September 30, 2012 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 $3.9 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.

Item 4. Controls and Procedures.

Disclosure 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, 2012 that has materially affected, or is reasonable likely to materially affect, our internal controls over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

The information contained in Note 13 — Commitments and Contingencies — "Litigation" of our notes to consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated by reference into this Item 1. Except as set forth therein, there have been no material legal proceedings for the nine months ended September 30, 2012.

Item 1A. Risk Factors

There have been no material changes from the risk factors set forth in our December 31, 2011 Annual Report on Form 10-K/A filed with the SEC on May 11, 2012, except as follows:

The proposed merger with Realty presents certain risks to our business and operations.

On September 6, 2012, we signed a definitive agreement and plan of merger with Realty Income Corporation, or Realty, and Tau Acquisition LLC, a wholly owned subsidiary of Realty, or Merger Sub, under which Realty will acquire all of our outstanding shares of common stock in a stock-for-stock transaction. Pursuant to the terms and subject to the conditions set forth in the merger agreement, at the effective time of the acquisition, our stockholders will receive shares determined using a fixed exchange ratio of 0.2874 of Realty's shares of common stock for each share of our common stock that they own. Following a stockholder vote by both companies, the transaction is expected to close during the fourth quarter of 2012 or early in the first quarter of 2013, although we cannot assure you that the transaction will close during that time or at all. We are subject to a number of risks in connection with our proposed merger with Merger Sub.

Prior to closing, the merger may present certain risks to our business and operations, including, among other things, that:

- if the merger does not occur, we may incur payment obligations to Realty;
- failure to complete the merger could negatively impact the market value of our common stock and our future business, financial results and prospects, and could cause securities and industry analysts and others who follow our company to lower their expectations regarding our future performance and prospects;
- consummation of the proposed merger may result in a substantial diversion of time and resources of both our management and other employees and may limit the time available to them to focus on other aspects of our business, including, without limitation, identifying acquisitions and strategic opportunities;
- due to covenants in the merger agreement, we may be unable, during the pending merger, to pursue certain strategic transactions, undertake certain significant capital projects or financing transactions or pursue other actions that we might consider beneficial, and current and prospective tenants, customers or vendors may delay or defer decisions to enter into leases, agreements or transactions with us;
- the pending merger could have other adverse effects on our business and operations; and
- we have incurred substantial expenses and expect to incur additional substantial expenses related to the proposed merger, including legal, accounting, financial advisory, filing, printing and mailing expenses.

In addition, as of October 29, 2012, eight lawsuits had been filed against us, our directors and Realty in connection with the proposed merger, seeking, among other things, to enjoin the merger and rescind the merger agreement, and it is possible that additional lawsuits of this nature may be filed in the future. The complaints allege that our directors breached their fiduciary duties to our stockholders and/or to the company itself and further claim that Realty has aided and abetted those alleged breaches of fiduciary duty. In addition to seeking to enjoin or rescind the merger, the

complaints also seek an award of unspecified attorneys' and other fees and costs, in addition to other relief (including damages). An adverse judgment in any of these lawsuits may prevent or delay the consummation of the proposed merger, result in substantial additional expense to us and divert our management's time and resources, which may be substantial, compared to the terms described in this Quarterly Report on Form 10-Q. We cannot assure you as to the outcome of these or any similar future lawsuits, including costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation or settlement of these claims. Whether or not the plaintiffs' claims are successful, this type of litigation is often expensive and diverts management's time and resources.

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These risks, and additional risks associated with the merger, are described in more detail under the heading "Risk Factors" in the joint proxy statement/prospectus contained in Realty's registration statement on Form S-4, which was filed with the SEC on October 1, 2012. Neither the Form S-4 nor the joint proxy statement/prospectus contained therein is incorporated by reference or constitutes a part of this Quarterly Report on Form 10-Q.

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

None.

Item 3. Defaults Upon Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

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 on Form 10-Q.

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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/ William M. Kahane
William M. Kahane
Chief Executive Officer, President and Director
(Principal Executive Officer)

By: /s/ Brian D. Jones
Brian D. Jones
Chief Financial Officer and Treasurer
(Principal Financial Officer)

Date: October 29, 2012

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EXHIBIT INDEX

The following documents are filed as part of this quarterly report:

Exhibit No.	Description
2.1 (2)	Agreement and Plan of Merger, dated as of September 6, 2012, among American Realty Capital Trust, Inc., Realty Income Corporation and Tau Acquisition LLC
3.1 (1)	Articles of Amendment and Restatement of the Company
4.2 (2)	First Amendment to Amended and Restated Agreement of Limited Partnership of American Realty Capital Operating Partnership, L.P., dated as of August 30, 2012, by and among American Realty Capital Trust. Inc. and the limited partners party thereto
10.54 (2)	Contribution Agreement, dated as of August 30, 2012, by and among American Realty Capital Trust, Inc., American Realty Capital Operating Partnership, L.P. and ARC Real Estate Partners, LLC
10.55 (3)	Incentive Listing Fee Note Agreement, dated as of September 6, 2012, by and among American Realty Capital Trust, Inc., American Realty Capital Operating Partnership, L.P. and AR Capital, LLC
10.56 (3)	First Amendment to Incentive Listing Fee Note Agreement, dated as of September 10, 2012, by and among American Realty Capital Trust, Inc., American Realty Capital Operating Partnership, L.P. and AR Capital, LLC
14 (1)	Code of Ethics
31.1 *	Certification required by Rule 13a-14(a) or Rule 15d-14(a)*
31.2 *	Certification required by Rule 13a-14(a) or Rule 15d-14(a)*
32.1 *	Certification required by Rule 13a-14(b) or Rule 15d-14(b) and section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350)*
99.1 (2)	Voting Agreement, dated as of September 6, 2012, among American Realty Capital Trust, Inc., Realty Income Corporation, Nicholas S. Schorsch and William M. Kahane
101 *	XBRL (eXtensible Business Reporting Language). The following materials from American Realty Capital Trust, Inc.'s Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2012, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Loss, (iii) the Consolidated Statement of Changes in Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purpose of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

* Filed herewith.

(1) Filed as an exhibit to a Current Report on Form 8-K filed with the SEC on August 1, 2012.

(2) Filed as an exhibit to a Current Report on Form 8-K filed with the SEC on September 6, 2012.

(3) Filed as an exhibit to a Current Report on Form 8-K filed with the SEC on September 12, 2012.