TELE CENTRO OESTE CELULAR PARTICIPACOES
Form 425
October 31, 2003

Filed by Tele Centro Oeste Participações S.A.
Pursuant to Rule 425 under the Securities Act of 1933

Subject Company: Tele Centro Oeste Participações S.A.
Commission File No. 001-14489

THE FOLLOWING ARE MATERIALS FILED WITH THE BRAZILIAN SECURITIES AND EXCHANGE COMMISSION (COMISSAO DE VALORES MOBILIARIOS) AND MADE PUBLIC BY THE COMPANY RELATING TO THE PROPOSED MERGER OF SHARES (INCORPORACAO DE ACOES) OF TELE CENTRO OESTE PARTICIPAÇÕES S.A. WITH TELESP CELULAR PARTICIPAÇÕES S.A.

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These materials may contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management s current expectations or beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forwarding-looking statements.

The forward-looking statements in these materials are subject to a number of risks and uncertainties, including but not limited to changes in technology, regulation, the global cellular communications marketplace and local economic conditions. These forward-looking statements relate to, among other things:

management strategy;

synergies;

operating efficiencies;

integration of new business units;

market position;

revenue growth;

cost savings;

capital expenditures;

flexibility in responding to market conditions and the regulatory regime;

influence of controlling shareholders;

litigation; and

the timetable for the merger of shares.

Forward-looking statements may be identified by words such as believes, expects, anticipates, projects, intends, should, seeks, est future or similar expressions.

These statements reflect our current expectations. In light of the many risks and uncertainties surrounding this marketplace, you should understand that we cannot assure you that the forward-looking statements contained in these materials will be realized. You are cautioned not to put undue reliance on any forward-looking information.

Investors and security holders are urged to read the prospectus regarding the strategic business combination transaction, which Telesp Celular Participações S.A. has filed with the U.S. Securities and Exchange Commission as part of its Registration Statement on Form F-4, because it contains important information. Investors and security holders may obtain a free copy of these materials and other documents filed by Tele Centro Oeste Participações S.A. and Telesp Celular Participações S.A. with the Commission at the Commission s website at www.sec.gov. These materials may also be obtained for free from Tele Centro Oeste Participações S.A.

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EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
1	Protocol of the Merger of Shares of Tele Centro Oeste Celular Participações S.A. with Telesp Celular Participações S.A. for the purpose of the former s conversion into a Wholly Owned Subsidiary.
2	Justification of the Merger of Shares of Tele Centro Oeste Celular Participações S.A. with Telesp Celular Participações S.A. for the purpose of the former s conversion into a Wholly Owned Subsidiary.
3	Notice of Material Fact, announcing the merger of shares.
4	Minutes of the Board of Directors meeting held on October 27, 2003.

EXHIBIT 1

PROTOCOL OF THE MERGER OF SHARES OF TELE CENTRO OESTE CELULAR PARTICIPAÇÕES S.A. INTO TELESP CELULAR PARTICIPAÇÕES S.A. FOR THE PURPOSE OF THE FORMER S CONVERSION INTO A WHOLLY OWNED SUBSIDIARY

BETWEEN

TELE CENTRO OESTE CELULAR PARTICIPAÇÕES S.A.

AND

TELESP CELULAR PARTICIPAÇÕES S.A.

DATED OCTOBER 27, 2003

PROTOCOL OF THE MERGER OF TELE CENTRO OESTE CELULAR PARTICIPACOES S.A. SHARES INTO TELESP CELULAR PARTICIPACOES S.A. FOR THE PURPOSE OF THE FORMER S CONVERSION INTO A WHOLLY OWNED SUBSIDIARY

The parties hereto:

a. TELE CENTRO OESTE CELULAR PARTICIPACOES S.A., a corporation with headquarters in Setor Comercial Sul, Quadra 2, Bloco C, Edificio Telebrasilia Celular, 7th floor, in the city of Brasilia, Distrito Federal, enrolled in the National Roll of Corporate Taxpayers (CNPJ/MF) under no. 02.558.132/0001-69 (TCO), herein represented by its corporate bylaws, as the company whose shares are to be merged; and

b. TELESP CELULAR PARTICIPACOES S.A., a corporation with headquarters at Avenida Roque Petroni Junior, 1.464, 6th floor, in the city of Sao Paulo, state of Sao Paulo, enrolled in the National Roll of Corporate Taxpayers (CNPJ/MF) under no. 02.558.074/0001-73 (TCP and, when jointly with TCO, Companies), herein represented by its corporate bylaws, as the incorporating company;

CONSIDERING THAT, on January 16, 2003, TCP published a relevant fact informing the market (a) that it had signed a preliminary share-purchase agreement with Fixcel S.A. for the acquisition of 77,256,410,396 issued by TCO, representing 61.10% of the latter s voting capital and 20.37% of its total capital (Acquisition); (b) that the signing of the definitive agreements depended on certain conditions contained in the preliminary agreement, (c) that the parties obligation to undertake the Acquisition depended on the approval of the National Telecommunications Agency ANATEL, (d) that the price agreed upon in the preliminary agreement was R$1,408 million, at R$18.23 per lot of 1,000 TCO shares, subject to alteration following a legal, accounting and financial audit of TCO and its subsidiaries, (e) that TCP would, on conclusion of the Acquisition, make a tender offer (TO) to acquire voting shares held by TCO minority shareholders, and (f) that, on conclusion of the Acquisition and termination of the TO, TCP would incorporate the shares of TCO with the object of transforming the latter into a wholly-owned subsidiary (Merger of Shares), based on an exchange ratio of 1.27 TCP shares for each TCO share (subject to alteration under the terms of said relevant fact) (Exchange Ratio);

CONSIDERING THAT, on March 24, 2003, TCP published a relevant fact informing the market (a) that it had signed, on that date, the definitive agreement for the purchase and sale of TCO shares (Definitive Agreement), and (b) that the transfer of control would occur after compliance with certain conditions in the Definitive Agreement, including the approval of ANATEL;

CONSIDERING THAT, on April 11, 2003, TCP published a relevant fact informing the market that said conditions had been complied with and that, consequently, the transfer of the shares acquired under the terms of the Definitive Agreement would take place shortly;

CONSIDERING THAT, on April 25, 2003, TCP published a relevant fact informing the market that, on that date, share control of TCO had been transferred at a total price of R$1,505,511,001.57, corresponding to R$19.48719845 per lot of 1,000 common shares acquired, R$308,311,434.16 of which having been paid to the sellers on April 25, 2003, the remainder to be paid in installments, under the terms of the Definitive Agreement;

CONSIDERING THAT, on August 25, 2003, TCP and TCO published a joint relevant fact informing the market (a) that they intended to proceed with the Merger of Shares, (b) that TCP confirmed that the Exchange Ratio would be 1.27 TCP shares for each TCO share, (c) that the Exchange Ratio had been calculated based on the price of TCO and TCP shares, plus a premium on the TCO share price equivalent to 15% above the exchange ratio based on the average price of said shares over the 30 (thirty) days immediately prior to January 16, 2003, (c) that TCP understood that market price would be the most adequate method for determining the Exchange Ratio, based on previous positions of the CVM (Brazilian Securities Commission), including CVM Guideline no. 01, (d) that TCP understood that there were no distortions in the price of TCO shares during the period used to determine the Exchange Ratio, (e) that, independent of the criterion adopted, under the terms of Article 30 of TCP s corporate bylaws, approval of the Merger of Shares would depend on the presentation of an economic and financial analysis (Economic and Financial Analysis) prepared by a company of international repute, to ensure that the Companies party to the operation were being given equitable treatment, and (f) that the Merger of Shares would only occur after termination of the TO, whose registration request was currently being examined by the CVM;

CONSIDERING THAT, on September 30, 2003, the CVM accepted the TO s registration;

CONSIDERING THAT the TO auction will occur on November 18, 2003;

CONSIDERING THAT, once the TO is concluded, TCO and TCP shall undertake the Merger of Shares under the terms of the above-mentioned relevant facts;

CONSIDERING THAT TCP has hired Citigroup Global Markets Inc. and Merrill Lynch & Co. to produce the Economic and Financial Analysis, in compliance with the provisions in Article 30 of its corporate bylaws;

CONSIDERING THAT, on this date, the said financial institutions presented the Economic and Financial Analysis, which confirmed that the Merger of Shares, under the terms of this protocol (Protocol), was equitable for both TCO and TCP;

CONSIDERING THAT, on this date, the Board of Directors of TCO and TCP approved (a) [text deleted], (b) the Justification of the Merger of Shares, (c) the signing of this Protocol and (d) [Text deleted];

[TEXT DELETED]

CONSIDERING THAT the objectives of the Merger of Shares are (a) to align the interests of the Companies shareholders; (b) to strengthen TCP s shareholder base my merging its shareholders and those of TCO into a single listed company, with greater liquidity; (c) to unify, standardize and rationalize the general administration of TCP and TCO s businesses; (d) to enhance TCP and TCO s corporate image; (e) to give TCO shareholders direct holdings in TCP s capital; and (f) to take advantage of any financial, operational and commercial synergies;

DO HEREBY agree to this present Protocol, in line with the following provisions:

CLAUSE ONE
ON THE NUMBER AND TYPE OF SHARES TO BE ATTRIBUTED IN EXCHANGE FOR SHAREHOLDERS RIGHTS WHICH SHALL BE EXTINGUISHED AND THE CRITERIA USED TO DETERMINE THE EXCHANGE RATIO

1.1 Number and type of shares to be attributed to TCO shareholders in exchange for their shareholders rights, which will be transferred to TCP. Each common and preferred TCO share shall be exchanged for 1.27 common and preferred shares, respectively, to be issued by TCP (Exchange Ratio). In addition, each American Depositary Share (ADS , representing 2,500 preferred shares each) issued by TCO shall be exchanged for 1.524 ADSs issued by TCP.

1.2 Rounding up of share fractions. Fractions of shares arising from the conversion of each TCO shareholder s position shall be supplemented, for the purpose of rounding up, by the delivery of shares (common or preferred, whichever the case) belonging to TCP s controlling shareholder, Brasilcel, N.V. Fractions of ADSs shall be grouped and sold on the market, the net proceeds from said sales to be paid to the ADS holders proportionally.

1.3 Criterion used to determine the exchange ratio. The Exchange Ratio was determined based on TCO and TCP share prices, plus a premium on the TCO share price equivalent to 15% above the exchange ratio based on the average price of said shares over the 30 (thirty) days immediately prior to January 16, 2003.

1.4 Equitability of the exchange ratio. Under the terms of Article 30 of TCP s corporate bylaws, the economic and financial analyses produced by Citigroup Global Markets Inc. and Merrill Lynch & Co. confirm that the Exchange Ratio is equitable for both TCO and TCP (Appendix 1).

CLAUSE TWO
ON THE CRITERION USED TO EVALUATE SHAREHOLDERS EQUITIES ON THE EVALUATION REFERENCE DATE AND THE TREATMENT OF SUBSEQUENT VARIATIONS IN SHAREHOLDERS EQUITY

2.1 Criterion for evaluating shareholders equities. The TCO shares to be merged into TCP for a TCP capital increase arising from the Merger of Shares were evaluated according to their book value, attested to by KPMG Auditores Independentes. The corresponding report can be found in Appendix 2.

2.2 Date to which the evaluation refers. The evaluation cited in Clause 2.1 above refers to June 30, 2003.

2.3 Treatment of subsequent variations in shareholders equity. Variations in TCO s shareholders equity (proportional to the shares merged) between the base date of the Appraisal Report at market value and the date of the Shareholders Meeting that will approve the Merger of Shares will be accounted as capital reserve (if positive), or against the income reserve (if negative).

CLAUSE THREE
ON THE SOLUTION TO BE ADOPTED FOR SHARES IN ONE OF THE COMPANIES HELD BY THE OTHER

3.1 Solutions for the shares.

a. TCP. Since a merger of shares is involved, TCO shares held by TCP shall remain part of TCP s equity.

b. TCO. TCO does not hold any shares issued by TCP.

CLAUSE FOUR
ON THE VALUE OF TCP S CAPITAL INCREASE ARISING FROM THE MERGER OF SHARES

4.1 Capital increase. Currently, TCP s capital stock totals R$ 4,373,661,469.73. If all TCO common shareholders adhere to the TO and if the Merger of Shares does not result in the exercise of withdrawal rights in TCP and TCO, it is estimated that TCP s capital stock is increased by R$970,005,000.00, to R$5,343,666,469.73.

4.2 Shares held in treasury. TCO shares held in treasury shall be canceled. A sufficient number of preferred shares shall be converted to common shares so that the limits laid down in the prevailing legislation shall be respected.

CLAUSE FIVE
ON THE ALTERATIONS IN THE CORPORATE BYLAWS THAT MUST BE APPROVED IN ORDER TO EFFECT THE MERGER OF SHARES

5.1 Bylaws alterations. It will not be necessary to alter TCP s corporate bylaws in order to effect the Merger of Shares, except for the alteration in the value of the capital stock and in its respective number of shares (as well as the number of shares of each type due to the Conversion, as defined and regulated in Clause 7.3 of this Protocol). TCO s corporate bylaws will also not suffer any alterations due to the Merger of Shares (except the changes relative to the alteration in its stock capital due to the cancellation of the shares held in treasury and the conversion of preferred into common shares in sufficient number to ensure that the limits laid down in the prevailing legislation are respected). Changes to TCO s bylaws resulting from its conversion into a wholly-owned subsidiary shall be made subsequently.

CLAUSE SIX
[TEXT DELETED]

CLAUSE SEVEN
ON THE REMAINING TERMS AND CONDITIONS OF THE MERGER OF SHARES.

7.1 [Text Deleted].

[Text Deleted].

It should be emphasized that the book value at market price, as attested to in the report drawn up by KPMG Corporate Finance, is less than the book value on the same base date.

[Text Deleted].

Under the terms of Article 264 of the Corporate Law, KPMG Corporate Finance arrived at the exchange ratio based on TCO and TCP s shareholders equities at market prices with a base date of June 30, 2003 (Exchange Ratio Market Prices). The value of the Exchange Ratio Market Prices was 1.24.

[Text Deleted].

7.2 Sharing in the profits from the fiscal year of 2003. Shares to be issued by TCP due to the Merger of Shares shall have full rights to all dividends and interest on its capital declared or credited, as of the date of their issue.

7.3 Conversion of TCP Preferred Shares into Common Shares. In order to make the Merger of Shares feasible, TCP shareholders must approve the conversion of TCP preferred shares into common shares of TCP (Conversion), since the implementation of the Merger of Shares based on the Exchange Ratio implies the issue of more TCP preferred shares than that permitted by the prevailing legislation.

The number of TCP preferred shares to be converted to TCP common shares shall amount to a maximum of 105,518,995 lots of 1,000 shares. [Text Deleted]. The object of the calculation was to ensure compliance with the legal limits for the issue of shares by TCP arising from the Merger of Shares. The precise number of preferred shares to be converted shall be determined after the final result of the TO.

The Conversion may be effected by any TCP preferred shareholder. Holders of American Depositary Receipts (ADRs) must convert their ADRs into shares before requesting Conversion, since TCP has no ADR program for common shares.

Should TCP shareholders request the conversion of a number of preferred shares that is greater than the desired conversion number, the conversion shall be effected proportionally. In addition, should the number of shares requested for conversion be less than the maximum conversion limit, TCP s controlling shareholder (Brasilcel N.V.), either directly or through its subsidiaries, shall convert that number of preferred shares needed to make up the desired conversion number. The Conversion procedures and the precise number of shares to be converted shall be published after the conclusion of the TO, via a Notice to Shareholders.

7.4 Communication of the Merger of Shares to the Authorities. The Merger of Shares shall be communicated to the National Telecommunications Agency - ANATEL and the Administrative Council for Economic Defense CADE.

7.5 Registration with the SEC. The Merger of Shares is dependent on registration with the Securities and Exchange Commission (SEC).

7.6 TO. The Merger of Shares is dependent on the conclusion of the TO.

CLAUSE EIGHT
GENERAL PROVISIONS

8.1 Alterations. This Protocol may not be altered except with the written and signed consent of the Companies.

8.2 Permanence of Valid Clauses. Should any clause, provision, term or condition of this Protocol come to be considered invalid, the remaining clauses, provisions, terms and conditions not affected by said invalidation shall remain valid.

8.3 Forum. The parties hereto hereby elect the Sao Paulo Law Courts, SP, as the exclusive forum for resolving any disputes arising from this Protocol.

IN WITNESS WHEREOF, the parties hereto shall sign this Protocol in 2 (two) copies of identical content in the presence of 2 (two) witnesses.

Sao Paulo, October 27, 2003

TELE CENTRO OESTE CELULAR PARTICIPACOES S.A.

Name:
Position:

Name:
Position:

TELESP CELULAR PARTICIPACOES S.A.

Name:
Position:

Name:
Position:

WITNESSES:

Name:	Name:
CPF:	CPF:

Appendix 1
Economic and Analysis

Valuation Report

October 27, 2003

Important Notice

The following pages contain a valuation analysis to be provided to the Board of Directors of Telesp Celular Partiçipacões S.A. (Telesp or TCP) by Citigroup Global Markets Inc. (Citigroup) in connection with a proposed merger transaction (the Merger Transaction) involving Telesp and Tele Centro Oeste Celular Participações S.A. (TCO) as described herein.

This Valuation Report is being provided by Citigroup in the context of the Merger Transaction solely for the purpose of valuing TCP and TCO and expressing our view as to whether the exchange ratio of 1.27 shares of TCP per share of TCO proposed in the Merger Transaction provides equitable treatment to TCP and to TCO as required by Article 30 of TCP s by-laws, and should not be relied upon for any other purpose. In preparing this Valuation Report, we have assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or furnished to or otherwise reviewed by or discussed with us.

With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with us, we have been advised and have assumed that such information and data were reasonably prepared and reflect the best currently available estimates and judgments of TCP and TCO s management, respectively, as to the expected future financial performance of TCP and TCO. We have been advised that the Board of Directors TCP and TCO have approved the business plans that were provided to us and were used in our analysis. Notwithstanding the foregoing, neither TCP or TCO, nor its managers or controlling shareholders have imposed any restriction on our ability to (i) obtain all information required by us to produce the Valuation Report and reach the conclusions set forth therein, (ii) choose independently the methodologies used by us to reach the conclusions set forth in the Valuation Report, and (iii) reach independently the conclusions set forth in the Valuation Report.

For purposes of our valuation analysis, we have not taken into account tax-related effects that TCO shareholders may experience in connection with the exchange of TCO shares for TCP shares, and any fees and expenses that may be incurred in connection with the settlement of that exchange (such as fees that TCO ADS holders may be charged for certain depositary services). We have also not taken into account tax-related effects relating to the unamortized goodwill resulting from the acquisition of TCO by TCP.

Our Valuation Report, as set forth herein, relates to the relative values of TCP and TCO. We are not expressing any opinion as to what the value of the TCP shares actually will be when issued pursuant to the Merger Transaction or the price at which the TCP shares will trade

Important Notice (Cont d)

subsequent to the Merger Transaction. We have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of TCP or TCO nor have we made any physical inspection of the properties or assets of TCP or TCO. We were not requested to and we did not participate in the negotiation or structuring of the Merger Transaction nor were we requested to consider, and our Valuation Report does not address, the relative merits of the Merger Transaction for TCP or TCO or the effect of any other transaction in which TCP or TCO might engage. We were not requested to, and we did not, solicit third party indications of interest in the possible acquisition of all or a part of TCP or TCO.

Our Valuation Report is necessarily based upon information available to us, and financial, stock market and other conditions and circumstances existing and disclosed to us, as of the date hereof. We do not have any obligation to update or otherwise revise the accompanying materials.

Citigroup has been retained by TCP to prepare this Valuation Report and will receive a fee for such services, which fee is payable upon the publication of this Valuation Report. We have in the past provided investment banking services to TCP and to its controlling shareholders unrelated to the proposed Merger Transaction, for which services we have received compensation. An affiliate of Citigroup is currently acting as a lender to TCP. In the ordinary course of our business, we and our affiliates may actively trade or hold the securities of TCP and TCO for our own account or for the account of our customers and, accordingly, may at any time hold a long or short position in such securities. In addition, we and our affiliates may maintain relationships with TCP and TCO and their respective affiliates. Additionally, the research department and other divisions within Citigroup may base their analysis and publications on different market and operating assumptions and on different valuation methodologies when compared with this Valuation Report. As a result, the research reports and other publications prepared by them may contain entirely different results.

Our Valuation Report is provided to the Board of Directors of TCP and we understand that the shareholders of TCP and TCO will be given access to the Valuation Report. The Valuation Report is not intended to be and does not constitute a recommendation to any stockholder as to how such stockholder should vote on any matters relating to the proposed Merger Transaction.

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I. Executive Summary

Transaction Summary

w On January 16, 2003, Telesp Celular Participações S.A. (TCP) announced that it had entered into a preliminary binding agreement with the previous controlling shareholder to acquire 77,256,410,396 shares, representing 61.16% of voting capital and 20.7% of the total shares outstanding (Acquisition Transaction), of Tele Centro Oeste Celular Participações S.A. (TCO).

w Pursuant to the Acquisition Transaction, TCP, in accordance with Brazilian securities regulation, also announced that it would make a public offer for the acquisition of common shares from non-controlling shareholders of TCO for 80% of the price per common share paid in the Acquisition Transaction (OPA).

w On that same date, TCP also announced that it intended to merge TCO s remaining shares at an exchange ratio of 1.27 shares of TCP per share of TCO (Merger Transaction).

w On March 24, 2003, TCP announced the execution of the definitive stock purchase agreement with Fixcel pursuant to the Acquisition Transaction.

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Transaction Summary (Cont d)

- w TCP is a company incorporated under the laws of Brazil. Under Article 30 of TCP s by-laws, approval of any merger, spin-off, consolidation transaction involving, or winding up its controlled subsidiaries shall be preceded by an economic/financial analysis conducted by an independent firm.

- w This Valuation Report is being provided by Citigroup in the context of the Merger Transaction solely for the purpose of valuing TCP and TCO and expressing our view as to whether the exchange ratio of 1.27 shares of TCP per share of TCO proposed in the Merger Transaction provides equitable treatment to TCP and to TCO as required by Article 30 of TCP s by-laws, and should not be relied upon for any other purpose.

- w Citigroup conducted its analysis on the basis that the proposed exchange ratio would provide equitable treatment to both companies, within the meaning of Article 30 of TCP s by-laws, if it falls within the range of exchange ratios resulting from Citigroup s valuations of TCP and TCO.

- w The scope of Citigroup s valuation analysis is limited to the economic value of TCP and TCO and does not distinguish between different classes of shares of the companies.

Scope of Work

This valuation analysis was based on:

- Financial statements of TCO and TCP for the year ended December 31, 2002 and financials for September 30, 2003.
- Business plans of TCO and TCP approved by their respective Boards of Directors.
- Publicly available information on the sector in which the companies operate.
- Discussions with TCP and TCO representatives regarding the past performance and future prospects of the business, financial and operating results of TCP and TCO.
- Review of such other financial studies and analyses, taking into account such other matters as we deemed necessary, including our assessment of general economic and market conditions.

Valuation Methodology

Considering the availability of management business plans for TCO and TCP and the opportunity to review these with representatives of TCP and TCO, and given the limitations of the public market comparables and precedent transaction methodologies, Citigroup elected Discounted Cash Flow as the best methodology for the assessment of TCP and TCO s economic values.

Discounted Cash Flows

w This methodology consists of estimating the present value of the future cash flows of the business.

w For purposes of our analysis, we received 10-year business plans for TCP and TCO and their respective subsidiaries.

w The business plans provided to us and used in our analysis were approved by the Board of Directors of TCP and TCO.

w Citigroup analyzed and discussed these business plans with the representatives of TCP and TCO and we have assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of TCP and TCO s management, respectively, as to the expected future financial performance of TCP and TCO.

w Citigroup has applied its estimates for WACC, Terminal Values and macro-economic assumptions.

w The valuation of TCP does not take into consideration the value of the unamortized goodwill relating to the acquisition of TCO by TCP.

w Our analysis has been prepared prior to the completion of the OPA. It should be noted, however, that the result of the OPA does not affect the conclusions reached by Citigroup in this Valuation Report.

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Summary Valuation TCP

(R$ in millions, except per share data)	**Low**	**High**
TCP Firm Value [1]	$ 13,860	$ 16,163
Less: Net Debt [2]	$ 4,378	$ 4,378
TCP Equity Value	$ 9,483	$ 11,785
Plus: Value of Stake in TCO [3]	$ 886	$ 1,035
Total TCP Equity Value	$ 10,369	$ 12,820
TCP Shares Outstanding (mm)	1,171.8	1,171.8
TCP Equity Value per Share	$ 8.85	$ 10.94

(1) Firm Value calculated using a US Dollar Weighted Average Cost of Capital (WACC) of 14.4% to 15.9% and a terminal value calculation based on a multiple of 2012 EBITDA of 5.5x to 6.5x and an implied perpetuity growth rate of 4.5% to 4.8%.

(2) Net debt as of 9/30/03, provided by management, considers R$5,363mm in total debt, R$966mm in unrealized gains in hedging positions, R$112 mm in cash and R$92mm in contingencies.

(3) TCP s 20.7% equity interest in TCO is valued at the value estimated for TCO in this Valuation Report.

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Summary Valuation TCO

(R$ in millions, except per share data)	**Low**	**High**
TCO Firm Value [(1)]	$ 3,826	$ 4,545
Less: Net Debt [(2)]	(453)	(453)
TCO Equity Value	$ 4,279	$ 4,998
TCO Shares Outstanding (mm)	373.409	373.409
TCO Equity Value per Share	$ 11.46	$ 13.39

(1) Firm Value calculated using a US Dollar Weighted Average Cost of Capital (WACC) of 14.4% to 15.9% and a terminal value calculation based on a multiple of 2012 EBITDA of 4.5x to 5.5x and an implied perpetuity growth rate of 3.5% to 4.1%.

(2) Net debt as of 9/30/03, provided by management, considers R$5.0mm in investments in unconsolidated companies, R$24.9mm in minority interest, R$104.4mm in contingencies and R$577.3 mm in net cash (cash and unrealized hedge gains less total debt).

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Summary Valuation Conclusions

(In R$, except exchange ratio)	**Low**	**High**
TCO Equity Value per Share	$ 11.46	$ 13.39
TCP Equity Value per Share	$ 8.85	$ 10.94
Exchange Ratio Range	1.22x	1.30x

Subject to the foregoing and on the basis of the results of the above valuations of TCP and TCO, it is our view that the exchange ratio of 1.27 shares of TCP per share of TCO proposed in the Merger Transaction provides equitable treatment to both companies.

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II. Overview of the Companies

Current Corporate Structure TCP and TCO

All financial data reflect company 2002 full year, subscriber information as of June 30, 2003.
All figures in millions of Reais, except subscribers (in thousands)

(a) Excludes TCP s proportionate stake in TCO
(b) TCO has other operating subsidiaries besides NBT with a weighted average ownership of 99.02%

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Competitive Environment

TELESP CELULAR / GLOBAL TELECOM

TELE CENTRO OESTE / NORTE BRASIL TELECOM

OPERATIONAL SUMMARY

	Telesp Celular	Global Telecom	Tele Centro Oeste	Norte Brasil Telecom
Region	1 and 2	5	7	8
Population (mm)	38.3	15.3	15.2	16.1
Penetration	23.8%	19.0%	25.4%	12.1%
GDP Per Capita (R$)	$9,995	$7,248	$5,842	$ 3,227
Technology	CDMA	CDMA	TDMA	TDMA
Market Share	66.0%	42.0%	69.7%	32.7%
Subscribers (000s)	6,270	1,287	2,688	642
Pre Paid	4,825	1,020	1,942	497
Post Paid	1,445	266	746	145

Sources: IBGE and Company financials as of 06/30/03 and 12/31/02.

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Company Overview   TCP

OVERVIEW

- TCP provides mobile telecommunications services in Brazil through two wholly-owned subsidiaries: Telesp Celular (TC) and Global Telecom (GT)
  - TC is an A Band operator in regions 1 and 2, Brazil s most highly populated and most wealthy area
  - GT is a B Band operator the states of Paraná and Santa Catarina
  - TCP controls TCO through a 61.16% interest in voting capital representing a 20.7% ownership in the company s total capital
- Across its network, TC has CDMA 1xRTT technology (new in 2003 for GT), enabling high-speed packet data service

LTM STOCK PERFORMANCE

FINANCIAL HIGHLIGHTS

(R$ Millions)	2Q03	2Q02	2002
Net Revenues	$ 1,512	$ 977	$ 3,391
EBITDA	537	379	1,451
Margin (%)	*35.5%*	*38.8%*	*42.8%*
EBIT	$ 244	$ 167	$ 766
Margin (%)	*16.1%*	*17.1%*	*22.6%*
Net Income	($262)	($394)	($1,141)

	2Q03	2002
Cash & Equivalents	$ 1,058	$ 18
Net PP&E	5,305	4,778
Total Assets	12,859	9,654
Total Debt	5,466	4,461
Total Liabilities	9,242	5,644
Shareholders Equity	3,616	4,010

Source: Company Financials

Source: 20-F FYE 2002

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OWNERSHIP

Ordinary Shares **Preferred Shares**

Source: 20-F FYE 2002

Company Overview TCO

OVERVIEW

- w TCO provides mobile telecommunications services in Brazil through Band A and Band B. In the Band A, it provides services directly and through affiliates (together TCOC) and in Band B, through Norte Brasil Telecom (NBT)
  - w TCOC is an A band operator in region 7 has the highest market share in Brasil with 70% and has 2.69mm subscribers
  - w NBT is a Band B operator in region 8
  - w TCO s network covers 88% of region 7 and 66% of region 8, with 703 base stations

LTM STOCK PERFORMANCE

FINANCIAL HIGHLIGHTS

(R$ Millions)	**2Q03**	**2Q02**	**2002**
Net Revenues	$ 489	$ 386	$ 1,561
EBITDA	197	153	615
Margin (%)	*40.4%*	*39.6%*	*39.4%*
EBIT	$ 148	$ 115	$ 459
Margin (%)	*30.4%*	*29.8%*	*29.4%*
Net Income	$ 120	$ 89	$ 329

	2Q03	**2002**
Cash & Equivalents	$ 723	$ 159
Net PP&E	869	891
Total Assets	2,382	2,365
Total Debt	519	628
Total Liabilities	949	1,146
Shareholders Equity	1,433	1,219

Source: Company Financials

Source: 20-F FYE 2002

OWNERSHIP

Ordinary Shares **Preferred Shares**

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III. Discounted Cash Flow Analysis

Main DCF Valuation Assumptions

Assumption	Comments
Projections	Based on 10-year (2003-2012) business plans provided by representatives of TCP and TCO.
Currency	Operating assumptions were projected in Brazilian reais and then unlevered free cash flows were converted into US dollars for purposes of valuation.
Discount Rate	Discounted projected unlevered free cash flows at a US dollar-based Weighted Average Cost of Capital range of 14.4% to 15.9% for both TCP and TCO.
Terminal Value	Calculated the terminal value for TCP and TCO based on multiples of the EBITDA in 2012 and implied perpetuity growth rates of the adjusted unlevered free cash flow(1) in 2012. For TCP, this represents a multiple of 2012 EBITDA of 5.5x to 6.5x and implied perpetuity growth rate of 4.5% to 4.8% For TCO, this represents a multiple of 2012 EBITDA of 4.5x to 5.5x and implied perpetuity growth rate of 3.5% to 4.1% We used different terminal value multiples / implied perpetuity growth rates to reflect the impact of future expected differences in per capita income and relevant penetration rates in the markets covered by TCP and TCO.

(1) Unlevered free cash flow adjusted to eliminate differences between depreciation and capital expenditures.

Macroeconomic Assumptions

(In Reais)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
US Real GDP Growth Rate % p.a	2.4%	2.4%	3.1%	3.3%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%		
Brazilian Real GDP Growth Rate % p.a	0.3%	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%		
Brazilian Inflation % p.a. (eop)	9.8%	6.0%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4,721	25,187	8,506
Total operating expenses	28,728	6,051	47,141	10,399								
Operating income	248	3,331	2,692	6,411								
Other income (expenses):												
Interest expense	(9,489)	(4,093)	(16,235)	(7,755)								
Gains (losses) on derivative instruments	6	(239)	148	(391)								
Loss on disposition of property	—	—	(44)	—								
Gains (losses) on sale to non-controlling interest holders, net of taxes	—	17	(102)	352								
Income from joint venture with affiliate	25	—	49	—								
Total other expenses	(9,458)	(4,315)	(16,184)	(7,794)								
Net loss	(9,210)	(984)	(13,492)	(1,383)								
Net (income) loss attributable to non-controlling interests	(307)	(8)	(545)	4								
Net loss attributable to stockholders	$ (9,517)	$ (992)	$ (14,037)	$ (1,379)								
Basic and diluted net loss per share	$ (0.09)	$ (0.04)	$ (0.16)	$ (0.07)								

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
Six Months Ended June 30, 2011
(Dollar amounts in thousands)
(Unaudited)

	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stock-holders' Equity	Non-controlling Interests	Total Equity
Balance, December 31, 2010	61,824,238	$ 618	$ 529,740	$ (3,878)	$ (46,464)	$ 480,016	$ 22,648	$ 502,664
Issuance of common stock	86,796,786	869	856,993	—	—	857,862	—	857,862
Offering costs, commissions and dealer manager fees	—	—	(82,481)	—	—	(82,481)	—	(82,481)
Common stock issued through distribution reinvestment plan	1,292,028	13	12,261	—	—	12,274	—	12,274
Distributions declared	—	—	—	—	(32,433)	(32,433)	—	(32,433)
Common stock redemptions	(196,516)	(2)	(2,957)	—	—	(2,959)	—	(2,959)
Issuance of restricted shares	36,725	—	—	—	—	—	—	—
Share based compensation	—	—	725	—	—	725	—	725
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,016)	(1,016)
Designated derivatives, fair value adjustment	—	—	—	(26)	—	(26)	—	(26)
Net income (loss)	—	—	—	—	(14,037)	(14,037)	545	(13,492)
Total comprehensive income (loss)	—	—	—	(26)	(14,037)	(14,063)	545	(13,518)
Balance, June 30, 2011	149,753,261	$ 1,498	$ 1,314,281	$ (3,904)	$ (92,934)	$ 1,218,941	$ 22,177	$ 1,241,118

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

AMERICAN REALTY CAPITAL TRUST, INC.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net loss	$ (13,492)	$ (1,383)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	19,949	6,842
Amortization of intangibles	5,238	1,664
Amortization of deferred financing costs	2,148	365
Amortization of mortgage discounts and premiums, net	(79)	—
Amortization of restricted stock grants	725	2
Accretion of below-market lease liability	(152)	(157)
Loss on disposition of property	44	—
(Gain) loss on derivative instruments	(148)	391
Gain on sales to non-controlling interest holders	—	(533)
Income from unconsolidated joint venture	(49)	—
Changes in assets and liabilities:		
Prepaid expenses and other assets	(7,733)	(2,603)
Accounts payable and accrued expenses	7,118	1,309
Deferred rent and other liabilities	358	470
Net cash provided by operating activities	13,927	6,367
Cash flows from investing activities:		
Investment in real estate and other assets	(717,054)	(182,184)
Distributions from joint venture investments	419	—
Proceeds from disposition of real estate and other assets	581	—
Net cash used in investing activities	(716,054)	(182,184)
Cash flows from financing activities:		
Proceeds from mortgage notes payable	243,852	76,687
Payments on mortgage notes payable	(4,814)	(14,643)
Payments on long-term notes payable	(12,790)	—
Payments on short-term bridge funds	—	(15,878)
Contributions from non-controlling interest holders	—	9,627
Distributions to non-controlling interest holders	(1,016)	(354)
Proceeds from issuance of common stock, net	751,053	131,425
Payments of financing costs	(9,273)	(1,526)
Distributions paid	(16,051)	(3,939)
Redemptions paid	(1,917)	(1,592)
Restricted cash	(1,918)	(21)
Net cash provided by financing activities	947,126	179,786
Net decrease in cash and cash equivalents	244,999	3,969
Cash and cash equivalents, beginning of period	31,985	5,010
Cash and cash equivalents, end of period	$ 276,984	$ 8,979
Supplemental Disclosures:		
Cash paid for interest	$13,534	$7,636

Cash paid for income taxes	144	383
Non-Cash Investing and Financing Activities:		
Common stock issued through distribution reinvestment plan	12,274	—
Mortgages assumed in real estate acquisitions	30,751	—

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

AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

Note 1 — Organization

American Realty Capital Trust, Inc. (the “Company”), incorporated on August 17, 2007, is a Maryland corporation that qualifies as a real estate investment trust (“REIT”) for federal income tax purposes. On January 25, 2008, the Company commenced an initial public offering (“IPO”) on a “best efforts” basis of up to 150.0 million shares of common stock offered at a price of $10.00 per share, subject to certain volume and other discounts, pursuant to a registration statement on Form S-11 (the “Registration Statement”) filed with the Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended. The Registration Statement also covered up to 25.0 million shares available pursuant to a distribution reinvestment plan (the “DRIP”) under which the Company’s stockholders may elect to have their distributions reinvested in additional shares of the Company’s common stock at the greater of $9.50 per share or 95% of the estimated value of a share of common stock.

On August 5, 2010, the Company filed a registration statement on Form S-11 to register 32.5 million shares of common stock in connection with a follow-on offering. The IPO was originally set to expire on January 25, 2011, three years after its effective date. However, as permitted by Rule 415 of the Securities Act, the Company was permitted to continue its IPO until July 25, 2011. On July 7, 2011, the Company had sold all of the 150.0 million shares that were registered under the IPO and as permitted, began to sell the remaining 25.0 million shares that were initially registered for the DRIP. On July 11, 2011, the Company withdrew the registration for the additional 32.5 million shares in connection with the follow-on offering. In addition, on July 15, 2011, the Company filed a registration statement on Form S-3 to register an additional 24.0 million shares to be used for the DRIP.

As of June 30, 2011, the Company had approximately 149.8 million shares of common stock outstanding including stock issued under the DRIP and restricted share plan. Total gross proceeds from these issuances were $1.5 billion. As of June 30, 2011, the aggregate value of all share issuances and subscriptions outstanding was $1.5 billion based on a per share value of $10.00 (or $9.50 for shares issued under the DRIP). As of June 30, 2011, approximately 0.5 million shares of common stock had been redeemed under the stock repurchase program at a value of $4.5 million and an additional 0.1 million shares with a redemption value of $1.4 million were accrued for redemption as of June 30, 2011. The Company is dependent upon the net proceeds from the offering to conduct its operations.

The Company has used and intends to use the proceeds from its IPO to acquire and manage a diverse portfolio of real estate properties consisting primarily of freestanding, single-tenant properties net leased to investment grade and other creditworthy tenants throughout the United States and Puerto Rico. The Company typically funds acquisitions with a combination of equity and debt and in certain cases may use only equity capital or fund a portion of the purchase price through investments from unaffiliated third parties. The Company expects to arrange long-term financing on both a secured and unsecured fixed rate basis. The Company intends to continue to grow existing relationships and develop new relationships throughout the various markets the Company serves, which is expected to lead to further acquisition opportunities.

As of June 30, 2011, the Company owned 368 properties with approximately 11.0 million square feet, 100% leased with a weighted average remaining lease term of 14.5 years. In constructing the portfolio, the Company is committed to diversification (industry, tenant and geography). As of June 30, 2011, rental revenues derived from investment grade tenants (rated BBB- or better by Standard & Poors) approximated 76.4%. The strategy encompasses receiving the majority of revenue from investment grade tenants as the Company further acquires properties and enters into (or assumes) long-term lease arrangements.

Substantially all of the Company's business is conducted through American Realty Capital Operating Partnership, L.P. (the "OP"), a Delaware limited partnership. The Company is the sole general partner of and owns a 99.01% partnership interest in the OP. American Realty Capital Advisors, LLC, (the "Advisor") is the sole limited partner and owner of 0.99% (non-controlling interest) of the partnership interests of the OP. The limited partner interests have the right to convert OP units into cash or, at the option of the Company, an equal number of common shares of the Company, as allowed by the limited partnership agreement.

The Company has no paid employees. The Company is managed by the Advisor and American Realty Capital Properties, LLC, which serves as its property manager (the "Property Manager"). The Advisor and the Property Manager are affiliated entities that receive compensation and fees for services related to the IPO and for the investment and management of the Company's assets. These entities receive fees during the Company's offering, acquisition, operational and liquidation stages. The compensation levels during the offering, acquisition and operational stages are discussed in Note 10 — Related Party Transactions and Arrangements.

AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

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

On May 27, 2011, the Company's board of directors engaged Goldman, Sachs & Co. as its financial advisor to assist it in evaluating strategic alternatives, including the possible sale of all or a portion of the Company, and a public listing on a traded exchange.

Note 2 — Summary of Significant Accounting Policies

The Company’s significant accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 2010, which are included in the Company’s Form 10-K filed with the SEC on March 31, 2011. There have been no significant changes to these policies during 2011 other than the updates described below.

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 is largely consistent with current fair value measurement principles with few exceptions that do not result in a change in general practice. The guidance will be applied prospectively and will be effective for interim and annual reporting periods ending after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company’s financial position or results of operations.

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 does 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. The guidance will be applied prospectively and will be effective for interim and annual reporting periods ending after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company’s financial position or results of operations but will change the location of the presentation of other comprehensive income to more closely associate the disclosure with net income.

AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

Note 3 — Real Estate Investments

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Real estate investments, at cost:				
Land	$ 58,826	$ 18,822	$ 132,350	$ 29,899
Buildings, fixtures and improvements	250,039	69,502	523,616	128,542
Total tangible assets	308,865	88,324	655,966	158,441
Acquired intangibles:				
In-place leases	45,943	12,422	91,508	23,743
Mortgage assumed	(18,321)	—	(30,751)	—
Mortgage discount, net	—	—	331	—
Total assets acquired, net	$ 336,487	$ 100,746	$ 717,054	$ 182,184
Number of properties purchased	50	21	110	41

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AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(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 June 30, 2011, all of the properties the Company owned were 100% occupied. The Company acquired and disposed of the following properties during the six months ended June 30, 2011 (dollar amounts in thousands other than annualized average rental income per square foot):

Property	Acquisition/ Disposal Date	No. of Buildings	Square Feet	Ownership Percentage	Remaining Lease Term (1)	Base Purchase Price (2)	Capitalization Rate (3)	Annualized Rental Income (4)
o as of December 31, 2010:		259	5,310,215	various	15.2	$ 879,215	8.41%	$
ions for the six months ended June 30, 2011:								
6)	January 2011	1	141,393	100%	15.1	10,018	6.74%	
	January 2011	2	14,307	100%	7.6	3,811	9.11%	
ip	January 2011	1	4,555	100%	12.7	3,330	8.74%	
	January 2011	1	56,451	100%	8.3	5,075	7.80%	
	January 2011	2	12,433	100%	15.9	17,209	7.00%	
ns VIII	January 2011	9	122,963	100%	23.6	54,569	6.86%	
Dialysis II	February 2011	4	23,154	100%	10.9	8,013	8.90%	
	February 2011	1	13,338	100%	25.6	5,199	7.25%	
p, Inc.	February 2011	1	64,036	100%	14.3	27,275	7.00%	
Clark	February 2011	1	401,512	100%	9.5	9,523	9.84%	
ns IX	February 2011	1	13,569	100%	22.4	5,460	7.34%	
Scripts	March 2011	2	416,141	100%	7.9	51,281	9.02%	
Dialysis III	March 2011	1	18,185	100%	11.9	6,565	7.72%	
General V	March 2011	6	55,363	100%	14.6	5,195	8.84%	
rt	March 2011	1	183,442	100%	7.8	12,633	7.15%	
	March 2011	1	88,408	100%	14.6	10,182	7.15%	
nstruments	March 2011	1	125,000	100%	9.4	32,000	7.88%	
lub (6)	March 2011	1	141,583	100%	14.2	12,821	6.64%	

	March 2011	1	13,225	100%	23.6	5,330	7.95%
ns X	March 2011	2	27,760	100%	19.1	9,000	7.46%
	March 2011	1	12,900	100%	22.6	5,759	7.29%
nt Bank	March 2011	1	2,950	100%	22.6	2,589	9.15%
II	March 2011	1	63,858	100%	10.3	6,420	7.49%
X	March & May 2011	2	204,157	100%	14.1	32,200	7.98%
	March 2011	1	650,760	100%	9.8	44,800	7.35%
es	March 2011	13	47,865	100%	11.9	24,789	8.85%
Supply II	March 2011	2	38,194	100%	14.8	5,103	9.09%
General VI	April 2011	2	18,428	100%	14.9	1,856	9.00%
General VII	April 2011	2	18,340	100%	14.8	2,093	8.98%
Auto II	April 2011	1	8,154	100%	11.6	1,894	8.92%
ns XI	April 2011	1	14,550	100%	24.0	4,993	7.35%
Dialysis IV	April 2011	1	6,020	100%	8.4	2,061	8.88%
ol	April 2011	1	750,000	100%	9.8	19,837	8.10%
er	April 2011	1	316,800	100%	9.5	17,286	8.20%
ns XII	April 2011	1	13,605	100%	22.6	4,380	8.20%
n	May 2011	1	3,074	100%	9.4	2,950	8.24%
I	May 2011	1	7,864	100%	14.5	2,661	8.53%
	May 2011	1	64,250	100%	19.6	6,398	7.50%
l Tire & Battery	May 2011	3	33,920	100%	14.3	5,921	8.16%
I	May 2011	1	13,224	100%	23.7	9,110	7.21%
V	May 2011	3	22,904	100%	13.4	8,539	8.60%
XI	May 2011	1	125,502	100%	10.7	39,000	7.94%
s	May 2011	3	60,140	100%	12.1	12,951	8.68%
arket	May 2011	1	57,833	100%	11.7	10,956	7.61%

AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

Property	Acquisition/ Disposal Date	No. of Buildings	Square Feet	Ownership Percentage	Remaining Lease Term (1)	Base Purchase Price (2)	Capitalization Rate (3)	Annualized Rental Income (4)
7-Eleven II	May 2011	1	2,940	100%	9.5	2,105	7.55%	159
General Electric	May 2011	1	484,348	100%	7.8	23,688	7.62%	1,806
Wal-Mart II	May 2011	1	151,925	100%	7.6	12,415	8.01%	995
USPS	May 2011	1	39,297	100%	13.8	7,260	6.79%	493
Walgreens XIII	May 2011	2	27,195	100%	17.1	9,819	7.25%	712
Walgreens XIV	June 2011	1	14,820	100%	21.9	3,986	7.15%	285
Mrs. Bairds	June 2011	2	30,120	100%	8.2	3,169	8.36%	265
Walgreens XV	June 2011	1	14,480	100%	21.9	4,912	7.13%	350
O'Reilly's III	June 2011	1	8,160	100%	11.8	2,000	8.70%	174
FedEx XII	June 2011	1	182,326	100%	11.8	35,000	7.79%	2,726
Walgreens XVI	June 2011	6	52,400	100%	22.7	51,160	6.63%	3,392
VA Clinic	June 2011	1	10,768	100%	9.6	3,190	11.66%	372
BSFS V	June 2011	1	159,797	100%	10.8	9,040	8.53%	771
Tractor Supply IV	June 2011	1	19,097	100%	11.9	1,750	13.94%	244
O'Reilly's IV	June 2011	2	16,000	100%	11.7	3,724	8.75%	326
Trader Joe's	June 2011	1	31,920	100%	10.5	5,550	12.16%	675
Disposition for the six months ended June 30, 2011:								
PNC	January 2011	(1)	(1,992)	100%	(7.9)	(680)	6.91%	(47)
Total		368	11,045,926		14.5	$ 1,626,338	8.08%	$ 131,377
Annualized average			$ 11.89					

rental
income per
square foot

(1) Remaining lease term as of June 30, 2011, 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 Advisor and closing costs on the property.

(3) Annualized rental income on a straight-line basis divided by base purchase price. Total capitalization rate is an average of the capitalization rate of the total portfolio.

(4) Annualized rental income for the property portfolio on a straight-line basis as of June 30, 2011, which includes the effect of tenant concessions such as free rent, as applicable.

(5) Includes a $12.0 million investment in a joint venture.

(6) Property is a parcel of land with a ground lease which contains a building that will be conveyed to the Company at the end of the ground lease. Square footage and number of buildings refers to the building that is constructed on the parcel of land.

AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

Future Lease Payments

The following table presents future minimum base rental cash payments due to the Company subsequent to June 30, 2011. 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):

Year	Future Minimum Base Rent Payments
July 1, 2011 to December 31, 2011	$ 62,322
2012	125,470
2013	126,446
2014	128,452
2015	129,952
Thereafter	1,311,441
Total	$ 1,884,083

The following table lists tenants whose annualized rental income on a straight-line basis represented greater than 10% of consolidated annualized income as of June 30, 2011 and 2010:

	2011	2010
FedEx	16%	16%
Walgreens	13%	—
CVS	8%	20%

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

Note 4 — Revolving Credit Facilities

At June 30, 2011 and December 31, 2010, the Company had available a $10.0 million revolving line of credit unsecured bridge facility with an affiliated entity. There were no amounts outstanding under this facility at June 30, 2011 or December 31, 2010. There are no unused borrowing fees associated with this facility.

In July 2010, the Company obtained a secured revolving credit facility with Capital One, N.A. (“Capital One”) for an aggregate maximum principal amount of $30.0 million. The proceeds of loans made under the credit agreement may be used to finance the acquisition of net leased, investment or non-investment grade occupied properties. The initial term of the credit agreement is 30 months, which may be extended by 12 months, subject to satisfaction of certain conditions, including payment of an extension fee.

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

In August 2010, the Company obtained a secured revolving credit facility with U.S. Bank, N.A. ("U.S. Bank") for an aggregate maximum principal amount of $20.0 million, which subsequently increased to $30.0 million. The proceeds of loans made under the credit agreement may be used to finance the acquisition of net leased, investment or non-investment grade occupied properties. The initial term of the credit agreement is 24 months, with a one-time extension option of 12 months, subject to satisfaction of certain conditions, including payment of an extension fee.

AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Any loan made under the U.S. Bank credit agreement shall bear floating interest at a per annum rate equal to one month LIBOR plus 3.25%. In the event of a default, U.S. Bank has the right to suspend the funding of future loans and to accelerate the payment on any unpaid principal amount of the outstanding loans. The line of credit requires a fee of 0.25% on the unused balance.

The Company must collateralize the Capital One and U.S. Bank lines of credit with certain of its properties in addition to meeting certain minimum cash deposit requirements. The Company has drawn on these lines of credit from time to time to finance the purchase price of acquisitions on a short-term basis. There are no amounts outstanding on these lines of credit as of June 30, 2011 or December 31, 2010.

Note 5 — 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)
June 30, 2011	269	$ 642,544	5.35%	5.08
December 31, 2010	196	$ 372,755	5.73%	6.15

(1) Mortgage notes payable are fixed rate mortgages or mortgages with rates that are fixed through the use of interest rate hedging instruments. Effective interest rates range from 4.09% to 6.97% at June 30, 2011 and 4.36% to 6.97% at December 31, 2010.

(2) Weighted average remaining years until maturity as of the periods presented.

The following table summarizes the scheduled aggregate principal repayments subsequent to June 30, 2011 (amounts in thousands):

Year	Total
July 1, 2011 to December 31, 2011	$ 4,900
2012	3,970
2013	59,910
2014	34,513
2015	120,625
Thereafter	418,626
Total	$ 642,544

The Company's sources of recourse 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 June 30, 2011, the Company was in compliance with the debt covenants under the mortgage loan agreements.

Note 6 — Long-Term Notes Payable

As of December 31, 2010, the Company had $12.8 million of outstanding long-term notes payable (the “Notes”) from a private placement pursuant to Rule 506 of Regulation D promulgated under the Securities Act. The proceeds of the private placement were used to repay outstanding short-term bridge equity fund draws.

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The Notes bore interest at 9.0% annually, provided that the interest rate would be adjusted to 9.57% annually for Notes on which the Company did not incur a selling commission. The Company paid interest-only monthly payments to subscribers of the Notes. The balances of the Notes were repaid in full in May 2011. In connection with this payoff, $0.7 million of unamortized deferred financing costs were charged to interest expense.

Note 7 — Fair Value of Financial Instruments

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

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

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

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

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

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with those derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of June 30, 2011 and December 31, 2010, 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 following table presents information about the Company's assets (including derivatives that are presented net) measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010, 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
June 30, 2011:				
Total derivatives, net	$ —	$ 5,117	$ —	$ 5,117
December 31, 2010:				
Total derivatives, net	$ —	$ 5,214	$ —	$ 5,214

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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 value of mortgage notes payable are obtained by calculating the present value at current market rates.

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):

	Carrying Amount at June 30, 2011	Fair Value at June 30, 2011	Carrying Amount at December 31, 2010	Fair Value at December 31, 2010
Mortgage notes payable (1)	$ 643,297	$ 653,419	$ 373,918	$ 388,984
Other long-term notes payable	$ —	$ —	$ 12,790	$ 12,790

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

Note 8 — 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.

Cash Flow Hedges of Interest Rate Risk

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

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.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s variable-rate debt. During the next twelve months, the Company estimates that an additional $2.0 million will be reclassified from other comprehensive income as an increase to interest expense.

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As of June 30, 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	4	$	63,069
Interest Rate Collars	1		4,115

As of December 31, 2010, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (dollar amounts in thousands):

Interest Rate Derivative	Number of Instruments	Notional Amount	
Interest Rate Swaps	4	$	63,532
Interest Rate Collars	1		4,115

Non-Designated Hedges

Derivatives not designated as hedges are not speculative. These derivatives are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements to be classified as hedging instruments. The Company has one interest rate collar contract outstanding, with an aggregate notional amount of $22.9 and $23.2 million at June 30, 2011 and December 31, 2010, respectively, with an established ceiling and floor for the underlying variable rate at 4.125% and 3.54%, respectively. This contract was not able to be designated as a hedging instrument as it does not qualify for hedge accounting based on the results of the net written option test. As such, all changes in the fair value of the interest rate collar have been included in the Company's statements of operations for the six months ended June 30, 2011 and 2010.

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 June 30, 2011 and December 31, 2010 (amounts in thousands):

	Balance Sheet Location	June 30, 2011		December 31, 2010	
Derivatives designated as hedging instruments:					
Interest Rate Products	Derivatives, at fair value	$	(3,906)	$	(3,828)
Derivatives not designated as hedging instruments:					
Interest Rate Products	Derivatives, at fair value	$	(1,211)	$	(1,386)

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Derivatives in Cash Flow Hedging Relationships

The table below details the location in the financial statements of the gain or loss recognized on interest rate derivatives designated as cash flow hedges for the three and six months ended June 30, 2011 and 2010 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Amount of loss recognized in accumulated other comprehensive income as interest rate derivatives (effective portion)	$ (1,250)	$ (2,256)	$ (1,095)	$ (3,400)
Amount of loss reclassified from accumulated other comprehensive income into income as interest expense (effective portion)	$ (522)	$ (516)	$ (1,069)	$ (940)
Amount of gain (loss) recognized in income on derivative as loss on derivative instruments (ineffective portion and amount excluded from effectiveness testing)	$ 10	$ —	$ (63)	$ —

Derivatives Not Designated as Hedging Instruments

The table below details the amount and location in the financial statements of the gain or loss recognized on derivatives not designated as hedging instruments for the three and six months ended June 30, 2011 and 2010 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Location of Gain or (Loss) Recognized in Income on Derivative:				
Gains (losses) on derivative instruments	$ 6	$ (239)	$ 148	$ (391)
Total	$ 6	$ (239)	$ 148	$ (391)

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 June 30, 2011, the fair value of derivatives in a net liability position related to these agreements was $5.1 million. As of June 30, 2011, 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 $5.5 million at June 30, 2011.

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Note 9 — Commitments and Contingencies

Litigation

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

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.

Guarantee of the Debt of Others

In conjunction with entering into a joint venture agreement with an affiliated entity where the Company invested $12.0 million for an ownership percentage of five retail condominium units, the Company agreed to provide a guarantee on a mortgage note payable obtained from a third party in connection with the property acquisition. The guarantee will be in place until the affiliated entity achieves a net worth of $40.0 million. At June 30, 2011, the balance of the mortgage note payable was $21.3 million. The net worth of the affiliated company at June 30, 2011 was $31.7 million. The leverage ratio on the property, defined as mortgage note payable balance divided by the purchase price of the property, was 62.6% as of June 30, 2011. In addition, the properties are leased on a long-term basis which fully cover debt service requirements. Therefore the Company believes that it is unlikely that it would be required to make payments on behalf of the affiliated entity under this arrangement and therefore the fair value of the guarantee is not material. The Company anticipates the net worth threshold to be achieved by the affiliated entity by the end of the third quarter of 2011.

Note 10 — Related Party Transactions and Arrangements

Fees Paid in Connection with Common Stock Offering

The Company’s affiliated Dealer Manager receives selling commissions of 7% of the gross offering proceeds from the sale of the Company’s common stock (as well as sales of long-term notes and exchange transactions) before reallowance of commissions earned by participating broker-dealers. The Dealer Manager re-allows 100% of commissions earned to participating broker-dealers. In addition, the Dealer Manager receives dealer manager fees of 3% of the gross offering proceeds before reallowance to participating broker-dealers. The Dealer Manager may re-allow all or a portion of its dealer manager fee to participating broker-dealers. No selling commissions or dealer-manager fees are paid to the Dealer Manager with respect to shares sold under the DRIP.

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Total commissions paid to Dealer Manager	$ 54,388	$ 8,981	$ 76,460	$ 14,338
Less:				
Commissions to participating broker dealers	(36,493)	(6,039)	(51,182)	(9,804)
Reallowance to participating broker dealers	(5,241)	(649)	(7,407)	(1,254)
Net to affiliated Dealer Manager (1)	$ 12,654	$ 2,293	$ 17,871	$ 3,280

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Organizational and offering expense reimbursements	$ 1,509	$ 1,175	$ 2,799	$ 2,278

At June 30, 2011 and December 31, 2010, the Company had a payable to the Dealer Manager and the Advisor of $2.0 million and $0.4 million, respectively, for commissions and reimbursements of expenses. At June 30, 2011, the Company had accrued all organizational and offering costs that the Advisor had incurred on behalf of the Company.

Fees Paid in Connection With the Operations of the Company

The Advisor receives an acquisition fee of 1.0% of the contract purchase price of each acquired property and is reimbursed for acquisition costs incurred in the process of acquiring properties, expected to approximate 0.5% of the contract purchase price. In no event will the total of all acquisition and advisory fees and acquisition expenses payable with respect to a particular investment exceed 4% of the contract purchase price.

The Company will pay the Advisor a yearly fee of up to 1% 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. On June 7, 2011, the Company and the Advisor agreed to modify the timing of the payment of asset management fees by the Company to the Advisor such that the Company shall pay to the Advisor asset management fees on a current basis, and shall no longer pre-pay those fees, as was allowed under the previous agreement. In addition, such asset management fees shall be payable, at the discretion of the Company’s board subject to the Advisor’s approval, on a prospective basis, in cash, common stock or restricted stock grants, or any combination thereof. See Note 12 – Share-Based Compensation for additional information of limitations on the issuance of restricted shares to the Advisor.

For the management and leasing of its properties, the Company will pay to an affiliate of its Advisor a property management fee of (a) 2% of gross revenues from its single tenant properties and (b) 4% of gross revenues from its multi-tenant properties, plus, in each case, market-based leasing commissions applicable to the geographic location of the property. The Company also will reimburse the affiliate costs of managing the properties. The affiliate may also receive a fee for the initial leasing of newly constructed properties, which would generally equal one month’s rent. In the unlikely event that the affiliate assists a tenant with tenant improvements, a separate fee may be charged to, and payable by the Company. This fee will not exceed 5% of the cost of the tenant improvements. The aggregate of all property management and leasing fees paid to its affiliates plus all payments to third parties for such fees will not exceed the amount that other nonaffiliated management and leasing companies generally charge for similar services in the same geographic location as determined by a survey of brokers and agents in such area. No such fees were incurred or paid for the three or six months ended June 30, 2011 or 2010.

The Company may reimburse its Advisor's costs of providing administrative services, subject to the limitation that it will not reimburse its Advisor for any amount by which its operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of (a) 2% of average invested assets, or (b) 25% of net income other than any additions to reserves for depreciation, bad debt or other similar non-cash reserves and excluding any gain from the sale of assets for that period. Additionally, the Company will not reimburse the Advisor for personnel costs in connection with services for which the Advisor receives acquisition fees or real estate commissions. No such fees were incurred or paid for the three or six months ended June 30, 2011 or 2010.

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

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

	Three Months Ended June 30,			
	2011		2010	
	Paid	Forgiven	Paid	Forgiven
One-time fees:				
Acquisition fees and related cost reimbursements	$ 5,474	$ —	$ 987	$ —
Financing coordination fees and related cost reimbursements	860	—	350	—
Other expense reimbursements	1,902	—	—	—
On-going fees:				
Asset management fees (1)	950	2,486	350	772
Property management and leasing fees	—	529	—	175
Total operational fees and reimbursements	$ 9,186	$ 3,015	$ 1,687	$ 947

	Six Months Ended June 30,			
	2011		2010	
	Paid	Forgiven	Paid	Forgiven
One-time fees:				
Acquisition fees and related cost reimbursements	$ 11,209	$ —	$ 1,785	$ —
Financing coordination fees and related cost reimbursements	2,720	—	767	—
Other expense reimbursements	2,381	—	—	—
On-going fees:				
Asset management fees (1)	1,550	4,350	350	1,663
Property management and leasing fees	—	918	—	314
Total operational fees and reimbursements	$ 17,860	$ 5,268	$ 2,902	$ 1,977

(1) The Company's board of directors, subject to the Advisor's approval, on a prospective basis, may elect to pay an equivalent amount of the cash fees forgiven in unvested performance based restricted shares. The Company will record expense for such shares, if the board of directors approves the issuance.

$8.1 million and $4.4 million of asset management fees were prepaid to the Advisor as of June 30, 2011 and December 31, 2010, respectively. On June 7, 2011, the Company and the Advisor agreed to modify the timing of the payment of asset management fees by the Company to the Advisor such that the Company shall pay to the Advisor asset management fees on a current basis, and shall no longer pre-pay those fees, as was allowed under the previous agreement.

Fees Paid in Connection with the Liquidation or Listing of the Company's Real Estate Assets

The Company will pay a brokerage commission on the sale of property, not to exceed the lesser of one-half of reasonable, customary and competitive real estate commission or 3% of the contract price for property sold (inclusive of any commission paid to outside brokers), in each case, payable to the Advisor if the Advisor or its affiliates, as determined by a majority of the independent directors, provided a substantial amount of services in connection with the sale.

The Company will pay a subordinated participation in the net proceeds of the sale of real estate assets of 15% of remaining net proceeds after return of capital contributions plus payment to investors of a 6% cumulative, non-compounded return on the capital contributed by investors. The Company cannot assure that it will provide this 6% return but the Advisor will not be entitled to the subordinated participation in net sale proceeds unless its investors have received a 6% cumulative non-compounded return on their capital contributions. No such fees were incurred or paid for the three or six months ended June 30, 2011 or 2010.

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The Company will pay a subordinated incentive listing fee of 15% of the amount by which the adjusted market value of real estate assets plus distributions exceeds the aggregate capital contributed by investors plus an amount equal to a 6% cumulative, non-compounded annual return to investors. The Company cannot assure that it will provide this 6% return but the Advisor will not be entitled to the subordinated incentive listing fee unless its investors have received a 6% cumulative non-compounded return on their capital contributions. No such fees were incurred or paid for the three or six months ended June 30, 2011 or 2010.

The following table details amounts paid to affiliates in connection with the sale of property (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Real estate commissions	$ —	$ —	$ 19	$ —

Financing

The OP entered into an agreement with the principals of the Advisor whereby the OP can obtain up to $10.0 million of bridge equity from the principals from time to time as needed to provide short-term bridge equity for property acquisitions or for general working capital purposes. Such bridge equity advances need to be satisfied within a one year period and will accrue a yield of 8%. There were no amounts outstanding under this facility as of June 30, 2011 and December 31, 2010. There was no interest expense for this facility during the three or six months ended June 30, 2011 or 2010.

Joint Venture Investment

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. The recorded book basis of the investment will be adjusted by distributions of the profit and loss of the investment properties in accordance with the joint venture agreement. For the three and six months ended June 30, 2011, the Company’s share of the net profit and loss on the property was $25,000 and $49,000, respectively. In addition, the Company received cash distributions of $0.2 and $0.4 million for the three and six months ended June 30, 2011, respectively. No fees were paid to the Advisor in connection with this agreement.

Note 11 — Economic Dependency

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

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

Note 12 — Share-Based Compensation

Stock Option Plan

The Company has a stock option plan (the “Plan”), which authorizes the grant of nonqualified stock options to the Company’s independent directors, subject to the absolute discretion of the board of directors and the applicable limitations of the Plan. The exercise price for all stock options granted under the Plan will be fixed at $10.00 per share until the termination of the Company’s 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 June 30, 2011 and December 31, 2010, the Company had granted options to purchase 27,000 shares at $10.00 per share, each with a two year vesting period and an expiration of 10 years. A total of 1.0 million shares have been authorized and reserved for issuance under the Plan.

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. During the three and six months ended June 30, 2011, no options were forfeited or were exercised and 9,000 shares became vested. During the three and six months ended June 30, 2010, no shares were forfeited, exercised or vested. As of June 30, 2011 and December 31, 2010, unvested options to purchase 9,000 shares at $10.00 per share remained outstanding with a weighted average contractual remaining life of 7.8 and 8.3 years, respectively. The total compensation charge relating to these option grants is immaterial.

Restricted Share Plan

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

In April 2011, the Board of Directors approved the modification of the RSP to provide that, for as long as the Company remains a non-traded REIT, the aggregate value of the asset management fees paid by the Company over the life of the offering plus the value of all restricted shares issued by the Company pursuant to its RSP cannot exceed 1% of the contract purchase price of all the properties based on assets held by the Company on the measurement date, adjusted for appropriate closing dates for individual property acquisitions. For purposes of this calculation, the value of the restricted stock granted to the Advisor and its employees will be the value of the Company's common stock on the date of such grant.

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. As of June 30, 2011 and December 31, 2010, 18,000 and 9,000 shares, respectively, had been issued to independent directors under this plan at a fair value of $10.00 per share. The fair value of the shares will be expensed ratably over the five-year vesting period.

In June 2010, the Company's independent directors approved and authorized the issuance of up to 1.5 million common restricted shares to the Advisor equaling 1% of authorized shares under the primary offering, subject to certain terms and conditions. As of June 30, 2011 and December 31, 2010, the Advisor had granted 1.5 million and 1.4 million restricted shares, respectively, to key executives and management. Of the total shares granted, 50% vest over a five year period commencing with the two year anniversary of the grant date and the remaining 50% vest only to the extent the Company's net asset value plus distributions paid to stockholders equals 106% of the original selling price of the Company's common stock.

Compensation expense for restricted shares of $0.4 million and $0.7 million was recorded for the three and six months ended June 30, 2011, respectively. There were no restricted shares outstanding for the three or six months ended June 30, 2010.

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Note 13 — Net Loss Per Share

The following is a summary of the basic and diluted net loss per share computation for the three and six months ended June 30, 2011 and 2010 (in thousands, except share and per share amounts):

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net loss attributable to stockholders	$ (9,517)	$ (992)	$ (14,037)	$ (1,379)
Less: distributions paid on unvested restricted stock	(253)	—	(495)	—
	$ (9,770)	$ (992)	$ (14,532)	$ (1,379)
Weighted average common shares outstanding	110,777,070	25,164,559	91,864,174	21,130,867
Net loss per share, basic and diluted	$ (0.09)	$ (0.04)	$ (0.16)	$ (0.07)

As of June 30, 2011, 27,000 stock options and 1.5 million unvested restricted shares were outstanding and as of June 30, 2010, 27,000 stock options were outstanding. These items were not included in the calculation of diluted earnings per share since the inclusion is anti-dilutive.

Note 14 — Non-controlling Interests

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

AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

The following table describes the activity related to investment arrangements with unaffiliated third parties (dollars in thousands):

					As of June 30, 2011		Distributions			
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	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Walgreens	1	Jul. 2009	$ 1,068	44.0%	$ 3,545	$ 1,550	$ (20)	$ (20)	$ (40)	$ (40)
FedEx/PNC Bank	2	Jul. 2009 to Jan. 2010	2,002	49.0%	11,571	8,935	(42)	(42)	(83)	(83)
PNC Bank	1	Sep. 2009	444	35.2%	3,387	2,328	(9)	(9)	(17)	(17)
CVS	3	Jan. 2010 to Mar. 2010	2,577	49.0%	10,873	6,709	(49)	(30)	(98)	(80)
Rickett Benckiser	1	Feb. 2010	2,400	14.6%	29,112	14,795	(53)	—	(104)	—
FedEx III	1	Apr. 2010	3,000	15.4%	31,956	15,000	(64)	—	(127)	—
BSFS	6	Jun. 2010 to Sep. 2010	6,468	49.0%	12,239	—	(128)	—	(256)	—
Brown Shoe/Payless	2	Oct. 2010	6,000	9.0%	66,729	28,000	(136)	—	(269)	—
Jared Jewelry	1	May 2010	500	24.9%	1,616	—	(10)	—	(22)	—
Total	18		$ 24,459		$ 171,028	$ 77,317	$ (511)	$ (101)	$ (1,016)	$ (220)

Note 15 — Subsequent Events

The Company has evaluated subsequent events through the filing of this 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 July 1, 2011 to August 5, 2011 (dollar amounts in thousands):

	No. of Buildings	Square Feet	Base Purchase Price (1)
Total portfolio – June 30, 2011	368	11,045,926	$ 1,626,338
Acquisitions	9	415,718	53,017
Total portfolio – August 5, 2011	377	11,461,644	$ 1,679,355

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

The acquisitions made subsequent to June 30, 2011 were made in the normal course of business and none were individually significant to the total portfolio.

AMERICAN REALTY CAPITAL TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

Sales of Common Stock

As of August 5, 2011, the Company had issued 176.2 million shares of common stock, including restricted shares and shares issued under the DRIP. Total gross proceeds from these issuances were $1.7 billion. As of August 5, 2011, the aggregate value of all share issuances was $1.8 billion based on a per share value of $10.00 (or $9.50 per share for shares issued under the DRIP).

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

Source of Capital (1)	Inception to June 30, 2011	July 1 to August 5, 2011	Total
Common shares	$ 1,472,211	$ 259,955	$ 1,732,166
Exchange proceeds (2)	24,459	—	24,459
	$ 1,496,670	$ 259,955	$ 1,756,625

(1) Excludes an aggregate of $13.0 million of notes payable which have been repaid from proceeds received from the IPO.

(2) Includes amounts received by the Company in connection with transactions completed through its affiliate, American Realty Capital Exchange, LLC.

As of July 25, 2011, the Company's IPO closed. All shares registered under the primary offering and 22.2 million shares available under the DRIP were allocated to the primary offering and sold. On July 15, 2011, 24.0 million shares were registered on Form S-3 (file No. 333-175589). These shares will be used for the DRIP.

Offering Costs

The following table presents cumulative offering costs incurred as of July 31, 2011 for our IPO (dollars in thousands):

	Actual Offering as of July 31, 2011 (including DRIP) Amount	Percent
Gross Offering Proceeds	$1,727,789	100.00 %
Less Public Offering Expenses:		
Selling Commissions and Dealer Manger Fee	151,582	8.77 %
Organization and Offering Expenses	24,866	1.44 %

Amount Available for Investment	$1,551,341	89.79 %

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

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

Forward-Looking Statements

Certain statements included in this quarterly report on Form 10-Q are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of American Realty Capital Trust, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as "may," "will," "seeks," "anticipates," "believes," "estimates," "expects," "plans," "inter 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:

- We and our Advisor have a limited operating history and our Advisor has limited experience operating a public company. This inexperience makes our future performance difficult to predict.
- All of our executive officers are also officers, managers and/or holders of a direct or indirect controlling interest in our Advisor, our dealer manager, Realty Capital Securities, LLC (the "Dealer Manager") and other American Realty Capital-affiliated entities. As a result, our executive officers, our Advisor and its affiliates face conflicts of interest, including significant conflicts created by our Advisor's compensation arrangements with us and other investors advised by American Realty Capital affiliates and conflicts in allocating time among these investors and us. These conflicts could result in unanticipated actions.
- Because investment opportunities that are suitable for us may also be suitable for other American Realty Capital-advised programs or investors, our Advisor and its affiliates face conflicts of interest relating to the purchase of properties and other investments and such conflicts may not be resolved in our favor, meaning that we could invest in less attractive assets, which could reduce the investment return to our stockholders.
- While we are investing the proceeds of our initial public offering ("IPO"), 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 or depend on our Advisor to waive reimbursement of certain expenses and fees to fund our operations.

- No public market currently exists, or may ever exist, for shares of our common stock, and our shares are, and may continue to be, illiquid.
- We may be unable to pay or maintain cash distributions or increase distributions over time.
- We are obligated to pay substantial fees to our Advisor and its affiliates.
- 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 (“REIT”).

Overview

We are a Maryland corporation, incorporated on August 17, 2007, that elected to be taxed as a REIT for federal income tax purposes, 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.

On January 25, 2008, we commenced an IPO on a "best efforts" basis of up to 150.0 million shares of common stock offered at a price of $10.00 per share, subject to certain volume and other discounts, pursuant to a registration statement on Form S-11 (File No. 333-145949) (the "Registration Statement") filed with the U.S. Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended. The Registration Statement also covered up to 25.0 million shares available pursuant to a distribution reinvestment plan (the "DRIP") under which our stockholders may elect to have their distributions reinvested in additional shares of our common stock at the greater of $9.50 per share or 95% of the estimated value of a share of common stock.

On August 5, 2010, we filed a registration statement on Form S-11 to register 32.5 million shares of common stock in connection with a follow-on offering. The IPO was originally set to expire on January 25, 2011, three years after its effective date. However, as permitted by Rule 415 of the Securities Act, the Company was permitted to continue its IPO until July 25, 2011. On July 7, 2011, we had sold all of the 150.0 million shares that were registered under the IPO and, as permitted, began to sell the remaining 25.0 million shares that were initially registered for the DRIP. On July 11, 2011, we withdrew the registration statement for the additional 32.5 million shares in connection with the follow-on offering. In addition, on July 15, 2011, we filed a registration statement on Form S-3 to register an additional 24.0 million shares to be used for the DRIP.

As of June 30, 2011, we had approximately 149.8 million shares of common stock outstanding including shares issued under the DRIP and the restricted share plan. Total gross proceeds from these issuances were $1.5 billion. As of June 30, 2011, the aggregate value of all share issuances and subscriptions outstanding was $1.5 billion based on a per share value of $10.00 (or $9.50 for shares issued under the DRIP). We are dependent upon the net proceeds from the offering to conduct our operations.

We have used and intend to use the proceeds of our IPO to acquire and manage a diverse portfolio of real estate properties consisting primarily of freestanding, single-tenant properties net leased to investment grade and other creditworthy tenants throughout the United States and Puerto Rico. We typically fund our acquisitions with a combination of equity and debt and in certain cases we may use only equity capital or we may fund a portion of the purchase price of an acquisition through investments from third parties. We expect to arrange long-term financing on both a secured and unsecured fixed rate basis. We intend to continue to grow our existing relationships and develop new relationships throughout the various markets we serve, which we expect will lead to further acquisition opportunities. We intend to have an overall leverage ratio as it relates to long-term secured mortgage financings of approximately 45% to 50%. As of June 30, 2011, our leverage ratio was 39.4%, or 22.5% including cash and cash equivalents of $277.0 million.

As of June 30, 2011, we owned 368 properties with 11.0 million square feet, 100% leased with a weighted average remaining lease term of 14.5 years. In constructing our portfolio, we are committed to diversification (industry, tenant and geography). As of June 30, 2011, rental revenues derived from investment grade tenants (rated BBB- or better by Standard & Poor's) approximated 76.4%. Our strategy encompasses receiving the majority of our revenue from investment grade tenants as we further acquire properties and enter into (or assume) long-term lease arrangements.

Substantially all of our business is conducted through the OP. We are the sole general partner of and own a 99.01% partnership interest in the OP. The Advisor is the sole limited partner and owner of 0.99% (non-controlling interest) of the partnership interests of the OP. The limited partner interests have the right to convert OP units into cash or, at our option, an equal number of our common shares, as allowed by the limited partnership agreement.

We have no paid employees. We are managed by our Advisor, and American Realty Capital Properties, LLC, which serves as our property manager (the "Property Manager"). The Advisor and the Property Manager are affiliated entities that receive compensation and fees for services related to the IPO and for the investment and management of our assets. These entities receive fees during our offering, acquisition, operational and liquidation stages.

Real estate-related investments are higher-yield and higher-risk investments that our Advisor will actively manage, if we elect to acquire such investments. The real estate-related investments in which we may invest include: (i) mortgage loans; (ii) equity securities such as common stocks, preferred stocks and convertible preferred securities of real estate companies; (iii) debt securities, such as mortgage-backed securities, commercial mortgages, mortgage loan participations and debt securities issued by other real estate companies; and (iv) certain types of illiquid securities, such as mezzanine loans and bridge loans. While we may invest in any of these real estate-related investments, our Advisor, with the support of our board of directors, has elected to suspend all activities relating to acquiring real estate-related investments for an indefinite period based on the current adverse climate affecting the capital markets. Since our inception, we have not acquired any real estate-related investments.

On May 27, 2011, we engaged Goldman, Sachs & Co. as a financial advisor to assist us in evaluating strategic alternatives, including the possible sale of all or a portion of the Company.

Significant Accounting Estimates and Critical Accounting Policies

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

Revenue Recognition

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

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

Investments in Real Estate

Investments in real estate are recorded at cost. Improvements and replacements are capitalized when they extend the useful life of the asset. Costs of repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of up to forty years for buildings and improvements, 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 are required to present the operations related to properties that have been sold or properties that are intended to be sold as discontinued operations in the statement of operations for all periods presented. Properties that are intended to be sold are to be designated as "held for sale" on the balance sheet.

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

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

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

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

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

Purchase Price Allocation

We allocate the purchase price of acquired properties to tangible and identifiable intangible assets acquired based on their respective fair values. Tangible assets include land, 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 which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be paid pursuant to the in-place leases and management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease.

The capitalized above-market lease intangibles are amortized as a decrease to rental income over the remaining term of the lease. The capitalized below-market lease values will be 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 intangibles 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 2 to 20 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.

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 risk, 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 2 to our consolidated financial statements.

Results of Operations

As of June 30, 2011, we owned 368 properties which were 100% leased, compared to 167 properties at June 30, 2010. Accordingly, our results of operations for the three and six months ended June 30, 2011, as compared to the three and six months ended June 30, 2010, reflect significant increases in most categories.

Comparison of Three Months Ended June 30, 2011 to Three Months Ended June 30, 2010

Rental Income

Rental income increased $18.7 million to $28.1 million for the three months ended June 30, 2011, compared to $9.4 million for the three months ended June 30, 2010. The increase in rental income was driven by our acquisition of $1.1 billion of net leased property subsequent to June 30, 2010, with total square footage of 8.2 million square feet. These properties, acquired at an average 8.0% capitalization rate, defined as annualized rental income on a straight-line basis divided by base purchase price, are leased from 3 to 30 years primarily to investment grade tenants. All properties were 100% leased in both periods. Annualized rent per square foot was $11.89 at June 30, 2011 compared to $14.92 at June 30, 2010.

Operating Expense Reimbursement

Operating expense reimbursement was $0.9 million for the three months ended June 30, 2011. Operating expense reimbursement represents reimbursements for taxes, property maintenance and other charges contractually due from tenants per their respective lease agreements. There were no property operating expense reimbursements for the three months ended June 30, 2010.

Fees to Affiliate

Asset Management Fee:

Our Advisor is entitled to fees for the management of our properties as well as fees for purchases and sales of properties. The Advisor was paid $1.0 million and $0.4 million for the three months ended June 30, 2011 and 2010, respectively, and had elected to waive $2.5 million and $0.8 million of asset management fees for the three months ended June 30, 2011 and 2010, respectively. On June 7, 2011, the agreement with the Advisor was amended such that now our board of directors, subject to the Advisor’s approval, on a prospective basis, may elect to pay an amount equivalent to the waived fees in performance based restricted shares. We will record expense for such shares if the board of directors approves the issuance of the shares.

Property Management Fee:

Our affiliated Property Manager has elected to waive the property management fees for the three months ended June 30, 2011 and 2010 in order to improve our working capital. Such fees represent amounts that had they not been waived, would have been paid to our Property Manager to manage and lease our properties. For the three months ended June 30, 2011 and 2010, we would have incurred property management fees of $0.5 million and $0.2 million, respectively, had the fees not been waived.

Acquisition and Transaction Related Costs

Acquisition and transaction related costs increased $10.1 million to $10.7 million for the three months ended June 30, 2011, compared to $0.6 million for the three months ended June 30, 2010. The increase in acquisition and transaction related costs was driven by our increase in acquisition related activity during 2011 as compared to 2010.

Property Expenses

Property expenses were $0.9 million for the three months ended June 30, 2011 and are mainly real estate taxes, ground lease rent, insurance and repairs and maintenance expenses. There were no property expenses for the three months ended June 30, 2010.

General and Administrative Expenses

General and administrative expenses increased $0.6 million to $0.9 million for the three months ended June 30, 2011, compared to $0.3 million for the three months ended June 30, 2010. The majority of the general and administrative expenses for the three months ended June 30, 2011 included $0.4 million of board member compensation and restricted stock compensation expense and $0.2 million of professional fees. The increase from the three months ended June 30, 2010 is mainly due to increases in expenses to support our larger real estate portfolio.

Depreciation and Amortization Expense

Depreciation and amortization expense increased $10.5 million to $15.2 million for the three months ended June 30, 2011, compared to $4.7 million for the three months ended June 30, 2010. The increase in depreciation and amortization expense was the result of our acquisition of real estate subsequent to June 30, 2010. These properties were placed into service when acquired and are being depreciated for the period held.

Interest Expense

Interest expense increased $5.4 million to $9.5 million for the three months ended June 30, 2011, compared to $4.1 million for the three months ended June 30, 2010. The increase in interest expense was mainly the result of a higher debt balance due to the financing of a portion of our property acquisitions. The average first mortgage debt balance for the three months ended June 30, 2011 and 2010 was $585.2 million and $237.9 million, respectively. The increase in the average mortgage debt balance was partially offset by a decrease in the average interest rate on debt to 5.35% at June 30, 2011 from 6.10% at June 30, 2010. We view these secured financing sources as an efficient and accretive means to acquire properties.

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

Gains (Losses) on Derivative Instruments

Gains in the fair value of derivative instruments were $6,000 for the three months ended June 30, 2011 compared to a loss of $0.2 million for the three months ended June 30, 2010. These unrealized gains and losses are related to marking our derivative instruments to fair value.

Gains (Losses) on Sales to Non-Controlling Interest Holders, Net

There were no sales to non-controlling interest holders during the three months ended June 30, 2011. Net gains on sales to non-controlling interest holders were $17,000 for the three months ended June 30, 2010, and were comprised of the excess of proceeds received over the amortized costs of the property sold in joint venture and other agreements with third parties net of related federal and state income tax effects.

Income from Joint Venture with Affiliate

Income from joint venture with affiliate was $25,000 for the three months ended June 30, 2011. This income represents our share of the profit and loss in a joint venture real estate investment with an affiliated entity. There were no joint venture investments at June 30, 2010.

Comparison of Six Months Ended June 30, 2011 to Six Months Ended June 30, 2010

Rental Income

Rental income increased $32.0 million to $48.8 million for the six months ended June 30, 2011, compared to $16.8 million for the six months ended June 30, 2010. The increase in rental income was driven by our acquisition of $1.1 billion of net leased property subsequent to June 30, 2010 with total square footage of 8.2 million square feet. These properties, acquired at an average 8.0% capitalization rate, defined as annualized rental income on a straight-line basis divided by base purchase price, are leased from 3 to 30 years primarily to investment grade tenants. All properties were 100% leased in both periods. Annualized rent per square foot was $11.89 at June 30, 2011 compared to $14.92 at June 30, 2010.

Operating Expense Reimbursement

Operating expense reimbursement was $1.1 million for the six months ended June 30, 2011. Operating expense reimbursement represents reimbursements for taxes, property maintenance and other charges contractually due from tenants per their respective lease agreements. There were no operating expense reimbursements for the six months ended June 30, 2010.

Fees to Affiliate

Asset Management Fee:

Our Advisor is entitled to fees for the management of our properties as well as fees for purchases and sales of properties. The Advisor was paid $1.6 million and $0.4 for the six months ended June 30, 2011 and 2010, respectively, and has elected to waive $4.4 million and $1.7 million of asset management fees for the six months ended June 30, 2011 and 2010, respectively. On June 7, 2011, the agreement with the advisor was amended such that now our board of directors, subject to the Advisor's approval, on a prospective basis, may elect to pay an amount equivalent to the waived fees in performance based restricted shares. We will record expense for such shares if the board of directors approves the issuance of the shares.

Property Management Fee:

Our affiliated Property Manager has elected to waive the property management fees for the six months ended June 30, 2011 and 2010 in order to improve our working capital. Such fees represent amounts that had they not been waived, would have been paid to our Property Manager to manage and lease our properties. For the six months ended June 30, 2011 and 2010, we would have incurred property management fees of $0.9 million and $0.3 million, respectively, had the fees not been waived.

Acquisition and Transaction Related Costs

Acquisition and transaction related costs increased $16.8 million to $17.8 million for the six months ended June 30, 2011, compared to $1.0 million for the six months ended June 30, 2010. The increase in acquisition and transaction related costs was driven by our increase in acquisition related activity during 2011 as compared to 2010.

Property Expenses

Property expenses were $1.1 million for the six months ended June 30, 2011 and are mainly real estate taxes, ground lease rent, insurance and repairs and maintenance expenses. There were no property expenses for the six months ended June 30, 2010.

General and Administrative Expenses

General and administrative expenses increased $0.9 million to $1.5 million for the six months ended June 30, 2011, compared to $0.6 million for the six months ended June 30, 2010. The majority of the general and administrative expenses for the six months ended June 30, 2011 included $0.9 million of board member compensation and restricted stock compensation expense and $0.3 million of professional fees. The increase from the six months ended June 30, 2010 is mainly due to increases in expenses to support our larger real estate portfolio.

Depreciation and Amortization Expense

Depreciation and amortization expense increased $16.7 million to $25.2 million for the six months ended June 30, 2011, compared to $8.5 million for the six months ended June 30, 2010. The increase in depreciation and amortization expense was the result of our acquisition of real estate subsequent to June 30, 2010. These properties were placed into service when acquired and are being depreciated for the period held.

Interest Expense

Interest expense increased $8.4 million to $16.2 million for the six months ended June 30, 2011, compared to $7.8 million for the six months ended June 30, 2010. The increase in interest expense was mainly the result of a higher debt balance due to the financing of a portion of our property acquisitions. The average first mortgage debt balance for the six months ended June 30, 2011 and 2010 was $506.6 million and $223.8 million, respectively. The increase in the average mortgage debt balance was partially offset by a decrease in the average interest rate on debt to 5.35% at June 30, 2011 from 6.10% at June 30, 2010. We view these secured financing sources as an efficient and accretive means to acquire properties.

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

Gains (Losses) on Derivative Instruments

Gains in the fair value of derivative instruments were $0.1 million for the six months ended June 30, 2011 compared to a loss of $0.4 million for the six months ended June 30, 2010. These unrealized gains and losses are 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 six months ended June 30, 2011 was realized from the sale of a PNC property in January 2011. There were no dispositions of property during the six months ended June 30, 2010.

Gains (Losses) on Sales to Non-Controlling Interest Holders, Net

Net losses on sales to non-controlling interest holders were $0.1 million for the six months ended June 30, 2011, compared to gains of $0.4 million for the six months ended June 30, 2010 and were comprised of the excess of proceeds received over the amortized costs of the property sold in joint venture and other agreements with third parties net of related federal and state income tax effects.

Income from Joint Venture with Affiliate

Income from joint venture with affiliate was $49,000 for the six months ended June 30, 2011. This income represents our share of the profit and loss in a joint venture real estate investment with an affiliated entity. There were no joint venture investments at June 30, 2010.

Cash Flows for the Six Months Ended June 30, 2011

During the six months ended June 30, 2011, net cash provided by operating activities was $13.9 million. The level of cash flows provided by operating activities is affected by acquisition and transaction costs incurred 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 $14.2 million as well as an increase in accounts payable and accrued expenses of $7.1 million and an increase in deferred rent of $0.4 million due to the timing of the receipt of rental payments, partially offset by an increase in prepaid expenses and other assets of $7.7 million principally resulting from the prepayment of an additional $3.8 million of asset management fees and straight-line rent adjustments of $2.7 million accrued during the six months ended June 30, 2011.

Net cash used in investing activities during the six months ended June 30, 2011, was $716.1 million. Cash used in investing activities was principally related to $717.1 million for acquisitions completed during the six months ended June 30, 2011, partially offset by $0.6 million received from disposition of real estate and $0.4 million of distributions from a joint venture.

Net cash provided by financing activities totaled $947.1 million during the six months ended June 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 $751.1 million and the net proceeds from mortgage notes payable after the effect of principal repayments of $239.0 million, partially offset by distributions to common stockholders of $16.1 million, the repayment of long-term notes payable of $12.8 million, payments of financing costs of $9.3 million, payments for common stock redemptions of $1.9 million, increases in restricted cash of $1.9 million and distributions to non-controlling interest holders of $1.0 million.

Cash Flows for the Six Months Ended June 30, 2010

During the six months ended June 30, 2010, net cash provided by operating activities was $6.4 million. The level of cash flows provided by operating activities is affected by both the timing of interest payments and amount of borrowings outstanding during the period. It is also affected by the receipt of scheduled rent payments. Net cash provided by operating activities primarily related to net loss adjusted for non-cash items of $7.2 million as well as an increase in accounts payable and accrued expenses of $1.3 million and an increase in deferred rent of $0.4 million. These cash inflows were partially offset by an increase in prepaid expenses and other assets of $2.6 million principally resulting from the prepayment of $1.0 million and $0.3 million of asset management and finances fees, respectively, and straight-line rents of $1.0 million during the six months ended June 30, 2010. Deferred rent increased by $0.4 million and accounts payable increased by $1.3 million.

Net cash used in investing activities during the six months ended June 30, 2010, was $182.2 million principally relating to acquisitions completed in 2010.

Net cash provided by financing activities totaled approximately $179.8 million during the six months ended June 30, 2010. Such amount consisted primarily of approximately $131.4 million from issuance of common stock, net proceeds from mortgage notes payable of $76.7 million and contributions from non-controlling interest holders of $9.6 million, partially offset by the repayment of short-term bridge funds and notes payable of $15.9 million and $14.6 million respectively, distributions to common stockholders of $3.9 million, common stock redemptions paid of $1.6 million, payments of deferred financing costs of $1.5 million and distributions to non-controlling interest holders of $0.4 million.

Liquidity and Capital Resources

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

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

We expect to continue to utilize the net proceeds from the sale of our common stock and proceeds from secured financings to complete future property acquisitions. As of June 30, 2011, we issued 149.8 million shares of common stock. Total gross proceeds from these issuances were $1.5 billion. As of June 30, 2011, the aggregate value of all share issuances and subscriptions outstanding was $1.5 billion based on a per share value of $10.00 (or $9.50 for shares issued under the distribution reinvestment plan, or DRIP).

On August 5, 2010, we filed a registration statement on Form S-11 to register 32.5 million shares of common stock in connection with a follow-on offering. The IPO was originally set to expire on January 25, 2011, three years after its effective date. However, as permitted by Rule 415 of the Securities Act, the Company was permitted to continue its IPO until July 25, 2011. On July 7, 2011 we had sold all of the 150.0 million shares that were registered under the IPO and as permitted, began to sell the remaining 25.0 million shares that were initially registered for the Distribution Reinvestment Plan ("DRIP"). On July 11, 2011, we withdrew the registration statement for the additional 32.5 million shares in connection with the follow-on offering. In addition, on July 15, 2011, we filed a registration statement on Form S-3 to register an additional 24.0 million shares to be used for the DRIP.

As of June 30, 2011 an additional 0.2 million shares were available for issuance under the current registration statement excluding shares available to be issued under the DRIP.

The following table summarizes our stock repurchase program activity cumulatively to date as of June 30, 2011. The value of redemptions did not exceed distribution reinvestment elections by stockholders (dollars in thousands except for cost per share):

	Redemption Requests			Shares Redeemed		
	Shares	Value	Average cost per share	Shares	Value	Average cost per share
Year ended December 31, 2009	3,000	$ 29	$ 9.65	3,000	$ 29	$ 9.65
Year ended December 31, 2010	299,528	2,933	9.79	299,528	2,933	9.79

Six months ended June 30, 2011	303,969		2,958		9.73	303,969		2,958		9.73
Cumulative redemptions as of June 30, 2011 (1)	606,497	$	5,920	$	9.76	606,497		5,920	$	9.76
						Value of shares issued through DRIP		23,030		
						Excess	$	17,110		

(1) Redemptions include 147,951 shares with a value of $1.4 million which have been approved for redemption as of June 30, 2011, and were paid to stockholders in the third quarter of 2011.

At June 30, 2011, we had cash and cash equivalents of $277.0 million. In addition, we had a $10.0 million revolving line of credit unsecured bridge facility with an affiliated entity. There were no amounts outstanding under this facility at June 30, 2011. There are no unused borrowing fees associated with this facility.

In July 2010, we obtained a secured revolving credit facility from Capital One N.A. (“Capital One”) for an aggregate maximum principal amount of $30.0 million. The proceeds of loans made under the credit agreement may be used to finance the acquisition of net leased, investment or non-investment grade properties. The initial term of the credit agreement is 30 months, which may be extended by 12 months, subject to satisfaction of certain conditions, including payment of an extension fee.

Any loan made under the credit agreement shall bear floating interest at per annum rates equal to either one month LIBOR plus 3.25% or three month LIBOR plus 3.25%, at our sole option. In the event of a default, Capital One has the right to terminate its obligations under the credit agreement, including the funding of future loans, and to accelerate the payment on any unpaid principal amount of all outstanding loans. The line of credit requires a 0.25% non-usage fee on the unused balance. There were no amounts outstanding under this facility at June 30, 2011.

In August 2010, we obtained a secured revolving credit facility from U.S. Bank N.A. (“U.S. Bank”) for an aggregate maximum principal amount of $20.0 million, which was increased to $30.0 million in February 2011. The proceeds of loans made under the credit agreement may be used to finance the acquisition of net leased, investment or non-investment grade properties. The initial term of the credit agreement is 24 months, with a one-time extension option of 12 months, subject to satisfaction of certain conditions, including payment of an extension fee.

Any loan made under the credit agreement shall bear floating interest at a per annum rate equal to one month LIBOR plus 3.25%. In the event of a default, U.S. Bank has the right to suspend the funding of future loans and to accelerate the payment on any unpaid principal amount of the outstanding loans. We have not yet drawn on the line of credit. The line of credit requires a 0.25% non-usage fee on the unused balance. There were no amounts outstanding under this facility at June 30, 2011.

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

Acquisitions

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

Distributions

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

The distribution is calculated based on stockholders of record each day during the applicable period at a rate that, if paid each day for a 365-day period, would equal a specified annualized rate based on a share price of $10.00. As of

June 30, 2011 our annualized distribution rate was 7.0%.

During the six months ended June 30, 2011, distributions paid totaled $27.8 million, inclusive of $12.3 million of common shares issued under the DRIP and excluding $0.4 million paid on unvested restricted stock grants for the six months ended June 30, 2011. Distribution payments are dependent on the availability of funds. Our board of directors may reduce the amount of distributions paid or suspend distribution payments at any time and therefore distribution payments are not assured.

We, our board of directors and Advisor share a similar philosophy with respect to paying our distribution. The distribution should principally be derived from cash flows generated from real estate operations. In order to improve our operating cash flows and our ability to pay distributions from operating cash flows, our related party Advisor agreed to waive certain fees including asset management and property management fees. For the three and six months ended June 30, 2011, we paid asset management fees to the Advisor of $1.0 million and $1.6 million, respectively. The Advisor has elected to waive the remainder of its asset management fee and its entire property management fee, and will determine if a portion or all of such fees will be waived in subsequent periods on a quarter-to-quarter basis. Such fees waived during the three and six months ended June 30, 2011 were $3.0 million and $5.3 million, respectively. The fees that were waived relating to the activity during 2011 are not deferrals and accordingly, will not be paid. Because the Advisor waived certain fees that we owed, cash flow from operations that would have been paid to the Advisor was available to pay distributions to our stockholders. See Note 10 to the consolidated financial statements elsewhere in this report for further information on fees paid to and forgiven by the Advisor.

The amount of the asset management fee will be reduced to the extent that funds from operations ("FFO") as adjusted, during the six months ending on the last day of the calendar quarter immediately preceding the date such asset management fee is payable, is less than the distributions declared with respect to the six month period. For purposes of this determination, FFO, as adjusted, is FFO (as defined by National Association of Real Estate Investment Trusts or "NAREIT"), adjusted to (i) include acquisition fees and related expenses which is deducted in computing FFO; (ii) include non-cash restricted stock grant amortization, if any, which is deducted in computing FFO; and (iii) include impairments of real estate related investments, if any (including properties, loans receivable and equity and debt investments) which are deducted in computing FFO. The Advisor will determine if such fees will be partially or fully waived in subsequent periods on a quarter-to-quarter basis.

As our real estate portfolio matures, we expect cash flows from operations to cover a more significant portion of our distributions and over time to cover all distributions. As the cash flows from operations become more significant, our Advisor may discontinue its past practice of forgiving fees and may charge the entire fee in accordance with our agreements with the Advisor. There can be no assurance that the Advisor will continue to waive asset management or property management fees beyond the agreed upon limits in the future.

The following table shows the sources for the payment of distributions to common stockholders for the three and six months ended June 30, 2011 (in thousands):

	Three Months Ended March 31, 2011	Percentage of Distribution	Three Months Ended June 30, 2011	Percentage of Distribution	Six Months Ended June 30, 2011	Percentage of Distribution
Distributions:						
Total distributions:	$ 11,129		$ 16,703		$ 27,832	
Distributions reinvested (1)	(4,904)		(7,370)		(12,274)	
Distributions paid in cash	$ 6,225		$ 9,333		$ 15,558	
Source of distributions:						
Cash flows provided by operations (2)	$ 3,430	55.1 %	$ 9,333	100.0 %	$ 12,763	82.0 %
Proceeds from issuance of common stock	2,795	44.9 %	—	— %	2,795	18.0 %
Total sources of distributions	$ 6,225	100.0 %	$ 9,333	100.0 %	$ 15,558	100.0 %
Cash flows provided by operations	$ 3,430		$ 10,502		$ 13,932	

(GAAP basis) (3)			
Net loss (in accordance with GAAP)	$ (4,520)	$ (9,517)	$ (14,037)

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

(2) Distributions paid from cash provided by operations are derived from cash flows from operations (GAAP basis) for the three and six months ended June 30, 2011.

(3) Includes the impact of expensing acquisition and related transaction costs as incurred of $10.7 million and $17.8 million for the three and six months ended June 30, 2011.

The following table compares cumulative distributions paid to net loss (in accordance with GAAP) for the period from August 17, 2007 (date of inception) through June 30, 2011 (in thousands):

	For the Period from August 17, 2007 (date of inception) to June 30, 2011
Distributions paid:	
Cash	$ 29,152
DRIP	23,030
Total distributions paid	$ 52,182
Reconciliation of net loss:	
Total revenues	$ 115,116
Acquisition and transaction related	(30,800)
Depreciation and amortization	(58,212)
Other operating expense	(7,960)
Other income (expense)	(49,887)
Net income (loss) attributable to non-controlling interests	(677)
Net loss (in accordance with GAAP) (1)	$ (32,420)

(1) Net loss as defined by GAAP includes the non-cash impact of depreciation and amortization expense as well as costs incurred relating to acquisitions and related transactions subsequent to January 1, 2009.

Dilution

Our net tangible book value per share is a mechanical calculation using amounts from our balance sheet, and is calculated as (i) total book value of our assets less the net value of intangible assets (ii) minus total liabilities less the net value of intangible liabilities, (iii) divided by the total number of shares of common stock outstanding. It assumes that the value of real estate and real estate related assets and liabilities diminish predictably over time as shown through the depreciation and amortization of real estate investments. Real estate values have historically risen or fallen with market conditions. Net tangible book value is used generally as a conservative measure of net worth that we do not believe reflects our estimated value per share. It is not intended to reflect the value of our assets upon an orderly liquidation in accordance with our investment objectives. Our net tangible book value reflects dilution in the value of our common stock from the issue price as a result of (i) operating losses, which reflect accumulated depreciation and amortization of real estate investments, (ii) the funding of distributions from sources other than our cash flow from operations, and (iii) fees paid in connection with our public offering, including commissions, dealer manager fees and other offering costs. As of June 30, 2011, our net tangible book value per share was $7.09. The offering price of shares under our primary offering (ignoring purchase price discounts for certain categories of purchasers) at June 30, 2011 was $10.00.

Our offering price was not established on an independent basis and bears no relationship to the net value of our assets. Further, even without depreciation in the value of our assets, the other factors described above with respect to the dilution in the value of our common stock are likely to cause our offering price to be higher than the amount you would receive per share if we were to liquidate at this time.

Non-GAAP Financial Measures

Due to certain unique operating characteristics of real estate companies, NAREIT, an industry trade group, has promulgated a measure known as FFO, which we believe to be an appropriate supplemental measure to reflect the operating performance of a real estate investment trust, or 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 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, or 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 write downs, plus depreciation and amortization, and 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. Since real estate values historically rise and fall with market conditions, presentations of operating results for a REIT, using historical accounting for depreciation, we believe, may be less informative. As a result, 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 is not immediately apparent from net income.

However, changes in the accounting and reporting rules under GAAP (for acquisition fees and expenses from a capitalization/depreciation model to an expensed-as-incurred model) that have been put into effect since the establishment of NAREIT's definition of FFO have prompted an increase in the non-cash and non-operating items included in FFO. In addition, we view fair value adjustments of derivatives, impairment charges and gains and losses from dispositions of assets as items which are typically adjusted for when assessing operating performance. Lastly, publicly registered, non-listed REITs typically have a significant amount of acquisition activity and are substantially more dynamic during their initial years of investment and operation and therefore require additional adjustments to FFO in evaluating performance. Due to these and other unique features of publicly registered, non-listed REITs, the Investment Program Association ("IPA"), an industry trade group, has standardized a measure, which we believe to be another appropriate supplemental measure to reflect the operating performance of a REIT.

The Company is currently precluded from providing certain non-GAAP financial measures within our filed Form 10-Q pursuant to an agreement made in connection with certain state permits to sell our securities. However, we believe such data is meaningful with respect to understanding and analyzing our performance. Accordingly, the Company will be furnishing a supplement to our Form 10-Q, which will include non-GAAP financial measures.

Our calculation of FFO may differ from other real estate companies due to, among other items, variations in cost capitalization policies for capital expenditures and, accordingly, may not be comparable to such other real estate companies. Our calculation of FFO is presented in the following table for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss (in accordance with GAAP)	$ (9,517)	$ (992)	$ (14,037)	$ (1,379)
Add:				
Depreciation of real estate assets	12,111	3,748	19,909	6,802
Amortization of intangible lease assets	3,113	953	5,238	1,664
Amortization of below-market lease liabilities	(76)	(79)	(152)	(158)
Fair value adjustments on derivatives	(12)	233	(124)	391
Non-controlling interest adjustment	(217)	(241)	(428)	(390)
(Gains) losses on sales to non-controlling interest holders	—	(17)	102	(352)
Loss on disposition of property	—	—	44	—
FFO	$ 5,402	$ 3,605	$ 10,552	$ 6,578

Loan Obligations

The payment terms of our loan obligations vary. In general, only interest amounts are payable monthly with all unpaid principal and interest due at maturity. Some of our loan agreements stipulate that we comply with specific reporting and financial covenants mainly related to debt coverage ratios and loan to value ratios. Each loan that has these requirements has specific ratio thresholds that must be met. As of June 30, 2011, we were in compliance with the debt covenants under our loan agreements.

Our Advisor may, with approval from our independent board of directors, seek to borrow short-term capital that, combined with secured mortgage financing, exceeds our targeted leverage ratio. Such short-term borrowings may be obtained from third-parties on a case-by-case basis as acquisition opportunities present themselves simultaneous with our capital raising efforts. We view the use of short-term borrowings as an efficient and accretive means of acquiring real estate in advance of raising equity capital. Accordingly, we can take advantage of buying opportunities as we expand our fund raising activities. As additional equity capital is obtained, these short-term borrowings will be repaid. Our leverage ratio approximated 39.4% (secured mortgage notes payable as a percentage of total real estate investments, at cost) as of June 30, 2011, or 22.5% including cash and cash equivalents of $277.0 million.

In addition, as of June 30, 2011, we have an unused short-term equity line available to us from a related party entity that allows us to draw a maximum of $10.0 million, and two additional lines of credit that would allow us to draw an additional $60.0 million if certain requirements are met. As of June 30, 2011 there were no amounts outstanding on these lines of credit.

Contractual Obligations

The following is a summary of our contractual obligations as of June 30, 2011 (in thousands):

	Total	July 1, 2011 to December 31, 2011	2012 – 2013	2014 – 2015	Thereafter
Principal payments due on mortgage notes payable	$ 642,544	$ 4,900	$ 63,880	$ 155,138	$ 418,626
Interest payments due on mortgage notes payable	$ 190,904	$ 17,254	$ 67,174	$ 55,633	$ 50,843

From July 1, 2011 to August 5, 2011, we purchased properties for a total purchase price of approximately $53.0 million. The properties were acquired with cash proceeds from our IPO. See Note 15 — Subsequent Events in the consolidated financial statements for more information on this financing.

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 ended December 31, 2011.

Inflation

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

Related-Party Transactions and Agreements

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

Off-Balance Sheet Arrangements

In conjunction with entering into a joint venture agreement in December 2010 with an affiliated entity where we invested $12.0 million for an ownership percentage of five retail condominium units, we agreed to provide a guarantee on a mortgage note payable obtained from a third party in connection with the property acquisition. The guarantee will be in place until the affiliated entity achieves a net worth of $40.0 million. As of June 30, 2011, the balance on the mortgage note payable was $21.3 million. The net worth of the affiliated entity at June 30, 2011 was $31.7 million.

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.

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 June 30, 2011, our debt included fixed-rate debt with a carrying value of $553.3 million and a fair value of $564.2 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 June 30, 2011 levels, with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease in the fair value of our fixed rate debt by approximately $32.7 million. A 100 basis point decrease in market interest rates would result in an increase in the fair value of our fixed-rate debt by $34.1 million.

As of June 30, 2011, our debt included variable-rate mortgage notes payable with a carrying value of $89.2 million. Interest rate volatility associated with this variable-rate mortgage debt has been mitigated by the use of hedge instruments entered into simultaneously when the corresponding mortgage note was executed. The sensitivity analysis related to our variable-rate debt assumes an immediate 100 basis point move in interest rates from their June 30, 2011 levels, with all other variables held constant. A 100 basis point increase or decrease in variable interest rates on our variable-rate notes payable would increase or decrease our interest expense by $0.9 million annually.

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

Item 4. Controls and Procedures

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

No change occurred in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended June 30, 2011 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

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

Item 1A. Risk Factors

There have been no material changes from the risk factors set forth in our Registration Statement (file No. 333-145949), as amended from time to time.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Reserved

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURES

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

American Realty Capital Trust, Inc.

By:	/s/ Nicholas S. Schorsch Nicholas S. Schorsch Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
By:	/s/ Brian S. Block Brian S. Block Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: August 15, 2011

EXHIBIT INDEX

The following exhibits are included, or incorporated by reference, in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (and are numbered in accordance with Item 601 of Regulation S-K).

Exhibit No.	Description
31.1	Certification of the Principal Executive Officer of the Company pursuant to Securities Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Principal Financial Officer of the Company pursuant to Securities Exchange Act Rule 13a-14(a) or 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32	Written statements of the Principal Executive Officer and Principal Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).