Four Corners Property Trust, Inc.
Form 10-Q
July 26, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2018
or

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

For the transition period from to
Commission File Number 1-37538
Four Corners Property Trust, Inc.
(Exact name of registrant as specified in its charter)

Maryland	47-4456296
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
591 Redwood Highway, Suite 1150 Mill Valley, California	94941
(Address of principal executive offices)	(Zip Code)

(415) 965-8030
(Registrant's telephone number, including area code)
Not applicable
(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨Yes x No
Number of shares of common stock outstanding as of July 25, 2018: [62,930,370]

FOUR CORNERS PROPERTY TRUST, INC.
FORM 10 - Q
THREE AND SIX MONTHS ENDED JUNE 30, 2018
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Item 1. Financial Statements
FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Real estate investments:		
Land	$471,870	$449,331
Buildings, equipment and improvements	1,118,348	1,115,624
Total real estate investments	1,590,218	1,564,955
Less: Accumulated depreciation	(605,407)	(598,846)
Total real estate investments, net	984,811	966,109
Cash and cash equivalents	88,371	64,466
Straight-line rent adjustment	25,505	21,130
Derivative assets	12,284	4,997
Other assets	11,903	11,957
Total Assets	$1,122,874	$1,068,659
LIABILITIES AND EQUITY		
Liabilities:		
Long-term debt, net of deferred financing costs	$516,449	$515,539
Dividends payable	17,278	16,843
Rent received in advance	8,461	8,295
Derivative liabilities	—	8
Other liabilities	4,946	5,706
Total liabilities	547,134	546,391
Equity:		
Preferred stock, par value $0.0001 per share; 25,000,000 authorized, zero shares issued and outstanding	—	—
Common stock, par value $0.0001 per share; 500,000,000 shares authorized, 62,930,370 and 61,329,489 shares issued and outstanding, respectively	6	6
Additional paid-in capital	510,235	473,685
Retained earnings	45,418	36,318
Accumulated other comprehensive income	12,185	4,478
Noncontrolling interest	7,896	7,781
Total equity	575,740	522,268
Total Liabilities and Equity	$1,122,874	$1,068,659

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

FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Rental revenue	$29,596	$ 28,327	$59,186	$ 56,091
Restaurant revenue	5,079	4,826	10,293	9,766
Total revenues	34,675	33,153	69,479	65,857
Expenses:				
General and administrative	3,204	3,459	6,873	6,316
Depreciation and amortization	5,225	5,426	10,569	10,829
Restaurant expenses	4,786	4,583	9,656	9,251
Interest expense	4,877	4,508	9,733	8,604
Total expenses	18,092	17,976	36,831	35,000
Other income	231	34	588	39
Realized gain on sale, net	10,879	3,291	10,879	3,291
Income before income taxes	27,693	18,502	44,115	34,187
Income tax expense	(66)	(61)	(125)	(106)
Net income	27,627	18,441	43,990	34,081
Net income attributable to noncontrolling interest	(182)	(128)	(291)	(245)
Net Income Available to Common Shareholders	$27,445	$ 18,313	$43,699	$ 33,836
Basic net income per share:	$0.44	$ 0.30	$0.71	$ 0.56
Diluted net income per share:	$0.44	$ 0.30	$0.71	$ 0.56
Weighted average number of common shares outstanding:				
Basic	61,751,530	60,319,521	61,511,183	60,125,477
Diluted	61,911,699	60,438,606	61,661,560	60,215,050
Dividends declared per common share	$0.2750	$ 0.2425	$0.5500	$ 0.4850

The accompanying notes are an integral part of this financial statement.
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FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except for share and per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$27,627	$18,441	$43,990	$34,081
Other comprehensive income:				
Effective portion of change in fair value of derivative instruments:				
Effective portion of change in fair value of derivative instruments	2,719	(839)	8,102	(179)
Reclassification adjustment of derivative instruments included in net income	(575)	409	(814)	1,034
Other comprehensive income	2,144	(430)	7,288	855
Comprehensive income	29,771	18,011	51,278	34,936
Less: comprehensive income attributable to noncontrolling interest				
Net income attributable to noncontrolling interest	182	128	291	245
Other comprehensive income attributable to noncontrolling interest	14	(7)	48	3
Comprehensive income attributable to noncontrolling interest	196	121	339	248
Comprehensive Income Attributable to Common Shareholders	$29,575	$17,890	$50,939	$34,688

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

FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In thousands, except share data)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
	Shares	Par Value					
Balance at December 31, 2017	61,329,489	$ 6	$ 473,685	$ 36,318	$ 4,478	$ 7,781	$ 522,268
ASU 2017-12 cumulative effect adjustment	—	—	—	(467)	467	—	—
Net income	—	—	—	43,699	—	291	43,990
Other comprehensive income	—	—	—	—	7,240	48	7,288
ATM proceeds, net of issuance costs	1,533,932	—	34,609	—	—	—	34,609
Dividends and distributions to equity holders	—	—	—	(34,132)	—	(224)	(34,356)
Stock-based compensation, net	66,949	—	1,941	—	—	—	1,941
Balance at June 30, 2018	62,930,370	$ 6	$ 510,235	$ 45,418	$ 12,185	$ 7,896	$ 575,740

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

FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows - operating activities		
Net income	$43,990	$34,081
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	10,569	10,829
Gain on disposal of land, building, and equipment	(10,879)	(3,291)
Gain on exchange of nonfinancial assets	(228)	—
Amortization of financing costs	910	813
Stock-based compensation expense	2,107	1,198
Deferred income taxes	—	(39)
Changes in assets and liabilities:		
Derivative assets and liabilities	(8)	62
Straight-line rent adjustment	(4,563)	(4,795)
Rent received in advance	166	254
Other assets and liabilities	(1,077)	122
Net cash provided by operating activities	40,987	39,234
Cash flows - investing activities		
Purchases of real estate investments	(37,989)	(64,013)
Proceeds from sale of real estate investments	15,714	5,001
Advance deposits on acquisition of operating real estate	(122)	(122)
Cash used in investing activities	(22,397)	(59,134)
Cash flows - financing activities		
Net proceeds from equity issuance	34,609	28,871
Proceeds from issuance of senior notes	—	125,000
Payment of deferred financing costs	—	(1,690)
Proceeds from revolving credit facility	—	36,000
Repayment of revolving credit facility	—	(81,000)
Payment of dividend to shareholders	(33,697)	(29,054)
Distribution to non-controlling interests	(224)	(249)
Redemption of non-controlling interests	—	(988)
Repayment of debt assumed in purchase of real estate investments	—	(2,305)
Net cash used in financing activities	688	74,585
Net increase in cash and cash equivalents	19,278	54,685
Cash and cash equivalents, including restricted cash, at beginning of period	69,371	26,643
Cash and cash equivalents, including restricted cash, at end of period	$88,649	$81,328
Supplemental disclosures:		
Interest paid	$8,908	$7,724
Income taxes paid	$410	$333
Non-cash investing and financing activities:		
Dividends declared but not paid	$17,278	$14,820
Debt assumed in acquisition of real estate investments	$—	$2,305
Change in fair value of derivative instruments	$7,287	$793
Operating partnership units issued in exchange for real estate investments	$—	$3,608

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

Four Corners Property Trust, Inc. (together with its consolidated subsidiaries, "FCPT") is an independent, publicly traded, self-administered company, primarily engaged in the ownership, acquisition and leasing of restaurant properties. Substantially all of our business is conducted through Four Corners Operating Partnership, LP ("FCPT OP"), a Delaware limited partnership of which we are the initial and substantial limited partner. Our wholly owned subsidiary, Four Corners GP, LLC ("FCPT GP"), is its sole general partner.

FCPT was incorporated as a Maryland corporation on July 2, 2015 as a wholly owned indirect subsidiary of Darden Restaurants, Inc., (together with its consolidated subsidiaries, "Darden"), for the purpose of owning, acquiring and leasing properties on a triple-net basis, for use in the restaurant and related food service industries. On November 9, 2015, Darden completed a spin-off of FCPT whereby Darden contributed to us 100% of the equity interest in entities that owned 418 properties in which Darden operates restaurants, representing five of their brands, and six LongHorn Steakhouse® restaurants located in the San Antonio, Texas area (the "Kerrow Restaurant Operating Business") along with the underlying properties or interests therein associated with the Kerrow Restaurant Operating Business. In exchange, we issued to Darden all of our common stock and paid to Darden $315.0 million in cash. Subsequently, Darden distributed all of our outstanding shares of common stock pro rata to holders of Darden common stock whereby each Darden shareholder received one share of our common stock for every three shares of Darden common stock held at the close of business on the record date as well as cash in lieu of any fractional shares of our common stock which they would have otherwise received (the "Spin-Off"). The Spin-Off is intended to qualify as tax-free to Darden shareholders for U.S. federal income tax purposes, except for cash paid in lieu of fractional shares.

We believe that we have been organized and have operated in conformity with the requirements for qualification and taxation as a real estate investment trust (a "REIT") for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2016, and we intend to continue to operate in a manner that will enable us to maintain our qualification as a REIT. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our adjusted taxable income to our shareholders, subject to certain adjustments and excluding any net capital gain. As a REIT, we will not be subject to U.S. federal corporate income tax on that portion of net income that is distributed to our shareholders. However, FCPT's taxable REIT subsidiaries ("TRS") will generally be subject to U.S. federal, state, and local income taxes. We made our REIT election upon the filing of our 2016 tax return.

Any references to "the Company," "we," "us," or "our" refer to FCPT as an independent, publicly traded, self-administered company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Four Corners Property Trust, Inc. and its consolidated subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair presentation of the results for the interim periods presented. These adjustments are considered to be of a normal, recurring nature.

Reclassifications

Certain amounts previously reported under specific financial statement captions have been reclassified to be consistent with the current period presentation.

Use of Estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. The estimates and assumptions used in the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

accompanying consolidated financial statements are based on management's evaluation of the relevant facts and circumstances as of the date of the combination. Actual results may differ from the estimates and assumptions used in preparing the accompanying consolidated financial statements, and such differences could be material.

Real Estate Investments, Net

Real estate investments, net are recorded at cost less accumulated depreciation. Building components are depreciated over estimated useful lives ranging from seven to fifty-five years using the straight-line method. Leasehold improvements, which are reflected on our balance sheets as a component of buildings, equipment and improvements are amortized over the lesser of the non-cancelable lease term or the estimated useful lives of the related assets using the straight-line method. Other equipment is generally depreciated over estimated useful lives ranging from two to fifteen years also using the straight-line method. Real estate development and construction costs for newly constructed restaurants are capitalized in the period in which they are incurred. Gains and losses on the disposal of land, buildings and equipment are included in our accompanying Consolidated Statements of Income and Comprehensive Income.

Our accounting policies regarding land, buildings and equipment, including leasehold improvements, include our judgments regarding the estimated useful lives of these assets, the residual values to which the assets are depreciated or amortized, the determination of what constitutes a reasonably assured lease term, and the determination as to what constitutes enhancing the value of or increasing the life of existing assets. These judgments and estimates may produce materially different amounts of reported depreciation and amortization expense if different assumptions were used. As discussed further below, these judgments may also impact our need to recognize an impairment charge on the carrying amount of these assets as the cash flows associated with the assets are realized, or as our expectations of estimated future cash flows change.

Acquisition of Real Estate

The Company evaluates acquisitions to determine whether transactions should be accounted for as asset acquisitions or business combinations in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2017-01. Since adoption in the fourth quarter of 2016, the Company has determined the land, building, site improvements, and in-places leases (if any) of assets acquired were a single asset as the building and property improvements are attached to the land and cannot be physically removed and used separately from the land without incurring significant costs or reducing their fair value. Additionally, the Company has not acquired a substantive process used to generate outputs. As substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset and there were no processes acquired, the acquisitions do not qualify as a business and are accounted for as asset acquisitions. Related transaction costs are generally capitalized and amortized over the useful life of the acquired assets.

The Company allocates the purchase price (including acquisition and closing costs) of real estate acquisitions to land, building, and improvements based on their relative fair values. In making estimates of fair values for this purpose, the Company uses a third-party specialist that obtains various information about each property, as well as the pre-acquisition due diligence of the Company and prior leasing activities at the site.

Lease Intangibles

Lease intangibles, if any, acquired in conjunction with the purchase of real estate represent the value of in-place leases and above- or below-market leases. For real estate acquired subject to existing lease agreements, in-place lease intangibles are valued based on the Company's estimates of costs related to tenant acquisition and the asset carrying costs that would be incurred during the time it would take to locate a tenant if the property were vacant, considering current market conditions and costs to execute similar leases at the time of the acquisition. Above-market and below-market lease intangibles are recorded based on the present value of the difference between the contractual amounts to be paid pursuant to the leases at the time of acquisition of the real estate and the Company's estimate of current market lease rates for the property, measured over a period equal to the remaining initial term of the lease.

In-place lease intangibles are amortized on a straight-line basis over the remaining initial term of the related lease and included in depreciation and amortization expense. Above-market lease intangibles are amortized over the remaining initial terms of the respective leases as a decrease in rental revenue. Below market lease intangibles are generally amortized as an increase to rental revenue over the remaining initial term of the respective leases, but may be amortized over the renewal periods if the Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

believes it is likely the tenant will exercise the renewal option. Should a lease terminate early, the unamortized portion of any related lease intangible is immediately recognized as an impairment loss in depreciation and amortization expense.

Impairment of Long-Lived Assets

Land, buildings and equipment and certain other assets, including definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the assets. Identifiable cash flows are measured at the lowest level for which they are largely independent of the cash flows of other groups of assets and liabilities, generally at the restaurant level. If these assets are determined to be impaired, the amount of impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Fair value is generally determined by appraisals or sales prices of comparable assets.

The judgments we make related to the expected useful lives of long-lived assets and our ability to realize undiscounted cash flows in excess of the carrying amounts of these assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions, changes in usage or operating performance, desirability of the restaurant sites and other factors, such as our ability to sell or lease our assets. As we assess the ongoing expected cash flows and carrying amounts of our long-lived assets, significant adverse changes in these factors could cause us to realize a material impairment loss.

Exit or disposal activities include the cost of disposing of the assets and are generally expensed as incurred. Upon disposal of the assets, any gain or loss is recorded in the same caption within our Consolidated Statements of Income and Comprehensive Income as the original impairment, if any.

Real Estate Held for Sale

Real estate is classified as held for sale when the sale is probable, will be completed within one year, purchase agreements are executed, the buyer has a significant deposit at risk, and no financing contingencies exist which could prevent the transaction from being completed in a timely manner. Assets whose disposal is not probable within one year remain in land, buildings, equipment and improvements until their disposal within one year is probable. Disposals of assets that have a major effect on our operations and financial results or that represent a strategic shift in our operating businesses meet the requirements to be reported as discontinued operations. Real estate held for sale is reported at the lower of carrying amount or fair value, less estimated costs to sell. There was no real estate held for sale at June 30, 2018.

Cash, Cash Equivalents, and Restricted Cash

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents can consist of cash and money market accounts. Restricted cash includes escrow deposits and is included in Other Assets on our Consolidated Balance Sheets.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash in our Consolidated Balance Sheets to the total amount shown in our Consolidated Statements of Cash Flows:

	June 30,	December 31,
(In thousands)	2018	2017
Cash and cash equivalents	$88,371	$ 64,466
Restricted cash (included in Other assets)	278	4,905
Total Cash, Cash Equivalents, and Restricted Cash	$88,649	$ 69,371

Long-term Debt

Long-term debt is carried at unpaid principal balance, net of deferred financing costs. All of our long-term debt is currently unsecured and interest is paid monthly on our non-amortizing term loan and revolving credit facility and semi-annually on our senior fixed rate notes.

See Note 6 - Long-term Debt, Net of Deferred Financing Costs for additional information.

Deferred Financing Costs

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financing costs related to long-term debt are deferred and amortized over the remaining life of the debt using the effective interest method. These costs are presented as a direct deduction from their related liabilities on the Consolidated Balance Sheets.

See Note 6 - Long-term Debt, Net of Deferred Financing Costs for additional information.

Derivative Instruments and Hedging Activities

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments as required by FASB ASC Topic 815, Derivatives and Hedging, and those utilized as economic hedges. Our use of derivative instruments is currently limited to interest rate hedges. These instruments are generally structured as hedges of the variability of cash flows related to forecasted transactions (cash flow hedges). We do not enter into derivative instruments for trading or speculative purposes, where changes in the cash flows of the derivative are not expected to offset changes in cash flows of the hedged item. All derivatives are recognized on the balance sheet at fair value. For those derivative instruments for which we intend to elect hedge accounting, at the time the derivative contract is entered into, we document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking the various hedge transactions. This process includes linking all derivatives designated as cash flow hedges to specific assets and liabilities on the consolidated balance sheet or to specific forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

To the extent our derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the cash flow hedge accounting criteria in accordance with United States generally accepted accounting principals ("U.S. GAAP"), changes in the derivatives' fair value are not included in current earnings but are included in accumulated other comprehensive income (loss), net of tax. These changes in fair value will be reclassified into earnings at the time of the forecasted transaction. Ineffectiveness measured in the hedging relationship is recorded in earnings in the period in which it occurs.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 is intended to simplify hedge accounting by better aligning an entity's financial reporting for hedging relationships with its risk management activities. We adopted ASU 2017-12 in January 2018, and as a result recorded a cumulative effect adjustment of $467 thousand to retained earnings and other comprehensive income.

See Note 7 - Derivative Financial Instruments for additional information.

Other Assets and Liabilities

Other assets primarily consist of intangible lease assets described above, pre-acquisition costs, prepaid assets, food and beverage inventories, restricted cash (escrow deposits), lease origination fees, and accounts receivable. Other liabilities primarily consist of accrued compensation, accrued interest, accrued operating expenses, intangible lease liabilities, and deferred rent obligations on certain operating leases.

Revenue Recognition

Effective January 1, 2018, the Company adopted FASB ASU No. 2014-09, "Revenue from Contracts with Customers" using the modified retrospective method. The standard outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those goods or services. Effective January 1, 2018, the Company also adopted FASB ASU No. 2017-15, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." Through the evaluation and implementation process, we have determined FCPT's key revenue stream that could be impacted by FASB ASU No. 2014-09, as amended by FASB ASU No. 2017-05, is the gain on disposition of real estate reported on the Consolidated Statements of Income and Comprehensive Income. We previously recognized revenue from asset sales at the time of closing (i.e., transfer of asset). After adoption of FASB No. ASU 2014-09, as amended by FASB ASU No. 2017-05, we will evaluate the transaction to determine if control has been transferred to the buyer to determine proper timing of revenue recognition, as well as transaction price allocation. Adoption of this guidance did not have a material impact on our consolidated financial statements or related disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Refer to the Restaurant Revenue section below for details of the impact of FASB ASU No. 2014-09 on the Kerrow Restaurant Operating Business.

Rental Revenue

For those net leases that provide for periodic and determinable increases in base rent, base rental revenue is recognized on a straight-line basis over the applicable lease term when collectability is reasonably assured. Recognizing rental income on a straight-line basis generally results in recognized revenues during the first half of a lease term exceeding the cash amounts contractually due from our tenants, creating a deferred rent receivable. Lease origination fees are deferred and amortized over the related lease term as an adjustment to rental revenue. Taxes collected from lessees and remitted to governmental authorities are presented on a net basis within rental revenue in our Consolidated Statements of Income and Comprehensive Income.

For those leases that provide for periodic increases in base rent only if certain revenue parameters or other substantive contingencies are met, the increased rental revenue is recognized as the related parameters or contingencies are met, rather than on a straight-line basis over the applicable lease term.

We assess the collectability of our lease receivables, including deferred rent receivables. We base our assessment of the collectability of rent receivables (other than deferred rent receivables) on several factors, including payment history, the financial strength of the tenant and any guarantors, the value of the underlying collateral, if any, and current economic conditions. If our evaluation of these factors indicates it is probable that we will be unable to recover the full value of the receivable, we provide a reserve against the portion of the receivable that we estimate may not be recovered. We also base our assessment of the collectability of deferred rent receivables on several factors, including among other things, the financial strength of the tenant and any guarantors, the historical operations and operating trends of the property, the historical payment pattern of the tenant and the type of property. If our evaluation of these factors indicates it is probable that we will be unable to receive the rent payments due in the future, we provide a reserve against the recognized deferred rent receivable asset for the portion, up to its full value, that we estimate may not be recovered. If we change our assumptions or estimates regarding the collectability of future rent payments required by a lease, we may adjust our reserve or reduce the rental revenue recognized in the period we make such change in our assumptions or estimates.

Restaurant Revenue

Restaurant revenue represents food, beverage, and other products sold and is presented net of the following discounts: coupons, employee meals, complimentary meals and gift cards. Revenue from restaurant sales, whether received in cash or by credit card, is recognized when food and beverage products are sold. At June 30, 2018, and December 31, 2017, credit card receivables totaled \$86 thousand and \$90 thousand, respectively. We recognize sales from our gift cards when the gift card is redeemed by the customer. Sales taxes collected from customers and remitted to governmental authorities are presented on a net basis within restaurant revenue on our consolidated statements of income.

Restaurant Expenses

Restaurant expenses include restaurant labor, general and administrative expenses, and food and beverage costs. Food and beverage costs include inventory, warehousing, related purchasing and distribution costs. Vendor allowances received in connection with the purchase of a vendor’s products are recognized as a reduction of the related food and beverage costs as earned.

Income Taxes

We believe that we have been organized and have operated in conformity with the requirements for qualification and taxation as a REIT commencing with our taxable year ended December 31, 2016, and we intend to continue to operate in a manner that will enable us to maintain our qualification as a REIT. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our shareholders. To maintain our qualification as a REIT, we are required under the Code to distribute at least 90% of our REIT taxable income (without regard to the deduction for dividends paid and excluding net capital gains) to our shareholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate rates. Even if we qualify as a REIT, we may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income and excise taxes may be due on our undistributed taxable income.

The Kerrow Restaurant Operating Business is a TRS and is taxed as a C corporation.
We provide for U.S. federal and state income taxes currently payable as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. U.S. federal income tax credits are recorded as a reduction of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Interest recognized on reserves for uncertain tax positions is included in interest, net in our Consolidated Statements of Comprehensive Income. A corresponding liability for accrued interest is included as a component of other liabilities on our Consolidated Balance Sheets. Penalties, when incurred, are recognized in general and administrative expenses.
We estimate certain components of our provision for income taxes. These estimates include, among other items, depreciation and amortization expense allowable for tax purposes, allowable tax credits for items such as taxes paid on reported employee tip income, effective rates for state and local income taxes and the valuation and tax deductibility of certain other items. We adjust our annual effective income tax rate as additional information on outcomes or events becomes available.
We base our estimates on the best available information at the time that we prepare the provision. We will generally file our annual income tax returns several months after our year end. Income tax returns are subject to audit by state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. The major jurisdictions in which we will file income tax returns are the U.S. federal jurisdiction and all states in the U.S. in which we own properties that have an income tax.
U.S. GAAP requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50 percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. We include within our current tax provision the balance of unrecognized tax benefits related to tax positions for which it is reasonably possible that the total amounts could change during the next 12 months based on the outcome of examinations.
See Note 8 - Income Taxes for additional information.
Earnings Per Share
Basic earnings per share (“EPS”) are computed by dividing net income allocated to common shareholders by the weighted-average number of common shares outstanding for the reporting period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. No effect is shown for any securities that are anti-dilutive. Net income allocated to common shareholders represents net income less income allocated to participating securities and non-controlling interests. None of the Company’s equity awards are participating securities.
See Note 9 - Equity for additional information.
Stock-Based Compensation
The Company’s stock-based compensation plan provides for the grant of restricted stock awards (“RSAs”), deferred stock units (“DSUs”), performance-based awards (including performance stock units, “PSUs”), forfeitable dividend equivalent units (“DEUs”), restricted stock units (“RSUs”), and other types of awards to eligible participants. DEUs are earned during the vesting period and received upon vesting of award. Upon forfeiture of an award, DEUs earned during the vesting period are also forfeited. We classify stock-based payment awards either as equity awards or liability awards based upon cash settlement options. Equity classified awards are measured based on the fair value on the date of grant. Liability classified awards are remeasured to fair value each reporting period. We recognize costs resulting from the Company’s stock-based compensation awards on a straight-line basis over their vesting periods, which range between one and three years, less estimated forfeitures. No compensation cost is recognized for awards for which employees do not render the requisite services.

Effective January 1, 2018, the Company adopted FASB ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting.” The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require the application of modification accounting in Topic 718. The Company's adoption of this guidance did not have a material impact on our consolidated financial statements or related disclosures.

See Note 10 - Stock-Based Compensation for additional information.

Fair Value of Financial Instruments

We use a fair value approach to value certain assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We use a fair value hierarchy, which distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than level one inputs that are either directly or indirectly observable; and
- Level 3 - Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Application of New Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", which supersedes the existing guidance for lease accounting, Leases (Topic 840). FASB ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. FASB ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. We are currently evaluating the impact of adopting this guidance.

Effective January 1, 2018, the Company adopted FASB ASU No. 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments." FASB ASU 2016-15 provides guidance on certain specific cash flow issues, including, but not limited to, debt prepayment or extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investees. The Company's adoption of this guidance did not have a material impact on our consolidated financial statements or related disclosures.

Effective January 1, 2018, the Company adopted FASB ASU No. 2016-18, "Statement of Cash Flows - Restricted Cash." FASB No. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. This adoption did not have a material impact on our financial statements and as a result of adoption, restricted cash is included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statement of Cash Flows.

NOTE 3 – CONCENTRATION OF CREDIT RISK

Our tenant base and the restaurant brands operating our properties are highly concentrated. With respect to our tenant base, Darden leases represent approximately 87% of the scheduled base rents from the properties we own. As our revenues predominately consist of rental payments, we are dependent on Darden for a significant portion of our leasing revenues. The audited financial statements for Darden can be found in the Investor Relations section at www.darden.com. We are providing this website address solely for the information of our stockholders. We do not intend this website to be an active link or to otherwise incorporate the information contained on such website into this report or our other filings with the SEC.

We also are subject to concentration risk in terms of the restaurant brands that operate our properties. With 298 locations in our portfolio, Olive Garden branded restaurants comprise approximately 56% of our leased properties and approximately 65% of the revenues received under leases. Our properties, including the Kerrow Restaurant Operating Business, are located in 44 states, with concentrations of 10% or greater of total rental revenue in two states: Texas (10.7%) and Florida (10.1%).

We are exposed to credit risk with respect to cash held at various financial institutions, access to our credit facility, and amounts due or payable under our derivative contracts. At June 30, 2018, our exposure to risk related to our derivative instruments totaled

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

$12.3 million and the counterparty to such instruments are investment grade financial institutions. Our credit risk exposure with regard to our cash and the $250.0 million available capacity under the revolver portion of our credit facility is spread among a diversified group of investment grade financial institutions.

NOTE 4 – REAL ESTATE INVESMENTS, NET

Real Estate Investments, Net

Real estate investments, net, which consist of land, buildings and improvements leased to others subject to net operating leases and those utilized in the operations of Kerrow Restaurant Operating Business are summarized as follows:

	June 30,	December 31,
(In thousands)	2018	2017
Land	$471,870	$449,331
Buildings and improvements	981,313	977,783
Equipment	137,035	137,841
Total gross real estate investments	1,590,218	1,564,955
Less: accumulated depreciation	(605,407)	(598,846)
Total Real Estate Investments, Net	$984,811	$966,109

During the six months ended June 30, 2018, the Company invested $37.9 million, including transaction costs, in 21 restaurant properties located in ten states, and allocated the investment as follows: $24.7 million to land, $8.7 million to buildings and improvements, and $4.5 million to intangible assets principally related to the value of the in-place leases acquired. There was no contingent consideration associated with these acquisitions. These properties are 100% occupied under net leases, with a weighted average remaining lease term of 11.1 years as of June 30, 2018. During the six months ended June 30, 2018, the Company sold one property with a net book value of $4.6 million for a realized gain on sale of $10.9 million.

Operating Leases

The following table presents the scheduled minimum future contractual rent to be received under the remaining non-cancelable term of the operating leases, and because lease renewal periods are exercisable at the option of the lessee, the table presents future minimum lease payments due during the initial lease term only.

	June 30,
(In thousands)	2018
2018 (six months)	$55,068
2019	111,467
2020	113,009
2021	114,436
2022	116,060
2023	117,432
Thereafter	890,583
Total Future Minimum Lease Payments	$1,518,055

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 5 – SUPPLEMENTAL DETAIL FOR CERTAIN COMPONENTS OF CONSOLIDATED BALANCE SHEETS

Other Assets

The components of other assets were as follows:

(In thousands)	June 30, 2018	December 31, 2017
Intangible lease assets, net	$8,273	$ 3,914
Prepaid acquisition costs	1,755	1,385
Prepaid assets	449	383
Accounts receivable	431	616
Restricted cash	278	4,905
Food and beverage inventories	156	186
Other	561	568
Total Other Assets	$11,903	$ 11,957

Other Liabilities

The components of other liabilities were as follows:

(In thousands)	June 30, 2018	December 31, 2017
Accrued interest expense	$1,331	$ 1,290
Accounts payable	707	1,055
Deferred lease liability	691	663
Accrued compensation	1,164	1,543
Accrued operating expenses	369	488
Intangible lease liabilities, net	101	—
Other	583	667
Total Other Liabilities	$4,946	$ 5,706

Intangible Lease Assets and Liabilities, Net

The following tables detail intangible lease assets and liabilities which are included in Other Assets and Other Liabilities, respectively, on our Consolidated Balance Sheets. Acquired in-place lease intangibles are amortized as depreciation and amortization expense. Above-market and below-market leases and lease incentives are amortized over the initial term of the respective leases as an adjustment to rental revenue.

(In thousands)	June 30, 2018	December 31, 2017
Acquired in-place lease intangibles	$8,054	$ 4,209
Above-market leases	804	—
Lease incentives	40	40
Total	8,898	4,249
Less: Accumulated amortization	(625)	(335)
Intangible Lease Assets, Net	$8,273	$ 3,914

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands)	June 30, 2018	December 31, 2017
Below-market leases	$115	$ —
Less: Accumulated amortization	(14)	—
Intangible Lease Liabilities, Net	$101	$ —

The value of acquired in-place leases amortized and included in depreciation and amortization expense was $123 thousand and $80 thousand for the three months ended June 30, 2018 and 2017, and $245 thousand and $160 thousand for the six months ended June 30, 2018 and 2017, respectively. The value of above-market and below-market leases and lease incentives amortized as an adjustment to revenue was $15 thousand and $31 thousand for the three and six months ended June 30, 2018. There was no amortization for adjustments to revenue for the six months ended June 30, 2017.

At June 30, 2018, the total weighted average amortization period remaining for our intangible lease assets and liabilities was 14.7 years, and the individual weighted average amortization period remaining for acquired in-place lease intangibles, above-market leases, below-market leases, and lease incentives was 14.7 years, 12.5 years, 4.3 years, and 19.1 years, respectively.

The following table presents the estimated impact during the next five years and thereafter related to the amortization of in-place lease intangibles, above-market and below-market lease intangibles, and lease incentives for properties held for investment at June 30, 2018.

(In thousands)	June 30, 2018
2018 (six months)	$370
2019	739
2020	738
2021	707
2022	628
2023	557
Thereafter	4,433
Total Future Amortization	$8,172

NOTE 6 – LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS

At June 30, 2018, and December 31, 2017, our long-term debt consisted of (1) a $400 million, non-amortizing term loan and (2) $125 million of senior, unsecured, fixed rate notes.

At June 30, 2018 and December 31, 2017, net unamortized deferred financing costs were approximately $8.6 million and $9.5 million, respectively. During the three months ended June 30, 2018 and 2017, amortization of deferred financing costs was $455 thousand and $415 thousand, respectively. During the six months ended June 30, 2018 and June 30, 2017, amortization of deferred financing costs was $910 thousand and $813 thousand, respectively. The weighted average interest rate on the term loan before consideration of the interest rate hedge described below was 3.40% and 2.79% at June 30, 2018 and December 31, 2017, respectively.

At both June 30, 2018, and December 31, 2017, there was no balance outstanding under the $250 million revolving credit facility nor any outstanding letters of credit. The Company was in compliance with all debt covenants at June 30, 2018.

NOTE 7 – DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage

exposures that arise from business activities that result in our receipt or payment of future cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash payments principally related to our borrowings.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The change in the fair value of derivatives designated and that qualify as cash flow hedges is recorded on our consolidated balance sheet in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the six months ended June 30, 2018, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

As of June 30, 2018, our variable-rate debt of $400 million is hedged by swaps with notional values totaling $400 million through November 9, 2018. From November 9, 2018, through the loan maturity date of the variable-rate debt, November 9, 2022, there are swaps in place with notional amounts totaling $300 million.

After the Company’s adoption of ASU 2017-12 in January 2018, it no longer separately measures and reports hedge ineffectiveness prospectively. For the three months and six months ended June 30, 2018, we recorded approximately $40 thousand and $36 thousand of income, respectively, related to hedge ineffectiveness in earnings. The hedge ineffectiveness was attributable to zero-percent floor and rounding mismatches in the hedging relationships.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. We estimate that over the next twelve months an additional $2.8 million will be reclassified to earnings as a decrease to interest expense.

Non-designated Hedges

We do not use derivatives for trading or speculative purposes. During the six months ended June 30, 2018 and 2017, we did not have any derivatives that were not designated as cash flow hedges for accounting purposes.

Tabular Disclosure of Fair Values of Derivative Instruments on the Consolidated Balance Sheets

The table below presents the fair value of our derivative financial instruments as well as their classification on the consolidated balance sheet as of June 30, 2018 and December 31, 2017.

	Derivative Assets			Derivative Liabilities		
		Fair Value at			Fair Value at	
(Dollars in thousands)	Balance Sheet Location	June 30, 2018	December 31, 2017	Balance Sheet Location	June 30, 2018	December 31, 2017
Derivatives designated as hedging instruments:						
Interest rate swaps	Derivative assets	$ 12,284	$ 4,997	Derivative liabilities	$ —	$ 8
Total		$ 12,284	$ 4,997		$ —	$ 8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Tabular Disclosure of the Effect of Derivative Instruments on the Statements of Comprehensive Income

The table below presents the effect of our interest rate swaps on the statements of comprehensive income for the three and six months ended June 30, 2018 and 2017.

(Dollars in thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Total Amount of Interest expense Presented in the Consolidated Statements of Income
Three months ended June 30, 2018	$ 2,719	Interest expense	$ 575	$ 4,877
Three months ended June 30, 2017	$ (839)	Interest expense	$ (409)	$ 4,508
Six months ended June 30, 2018	$ 8,102	Interest expense	$ 814	$ 9,733
Six months ended June 30, 2017	$ (179)	Interest expense	$ (1,034)	$ 8,604

Tabular Disclosure Offsetting Derivatives

The table below presents a gross presentation, the effects of offsetting, and a net presentation of our derivatives at June 30, 2018 and December 31, 2017. The net amounts of derivative assets or liabilities can be reconciled to the tabular disclosure of fair value. The tabular disclosure of fair value provides the location that derivative assets and liabilities are presented on the consolidated balance sheets.

Offsetting of Derivative Assets

(In thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2018	$ 12,284	$ —	$ 12,284	$ —	$ —	$ 12,284
December 31, 2017	4,997	—	4,997	(8)	—	4,989

Offsetting of Derivative Liabilities

(In thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		
				Financial Instruments	Cash Collateral Posted	Net Amount
June 30, 2018	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2017	8	—	8	(8)	—	—

Credit-risk-related Contingent Features

The agreement with our derivative counterparty provides that if we default on any of our indebtedness, including default for which repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations.

At June 30, 2018 and December 31, 2017, the fair value of derivatives in a net asset position related to these agreements was approximately $12.3 million and $5.0 million, respectively. As of June 30, 2018, we have not posted any collateral related to these agreements. If we or our counterparty had breached any of these provisions at June 30, 2018, we would have been entitled to the termination value of $12.3 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 – INCOME TAXES

We believe that we have been organized and have operated in conformity with the requirements for qualification and taxation as a REIT commencing with our taxable year ended December 31, 2016, and we intend to continue to operate in a manner that will enable us to maintain our qualification as a REIT. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our stockholders. Accordingly, no provision for U.S. federal income taxes has been included in the accompanying consolidated financial statements for the six months ended June 30, 2018 related to the REIT.

FCPT’s TRSs will generally be subject to U.S. federal, state, and local income taxes. During the three months ended June 30, 2018 and 2017, our income tax provision was $66 thousand and $61 thousand, respectively. During the six months ended June 30, 2018 and 2017, our income tax provision was $125 thousand and $106 thousand, respectively. In December 2017, the Tax Cuts and Jobs Act lowered the U.S. federal income tax rate on corporations to 21% effective for taxable years after December 31, 2017. Due to FCPT’s REIT status and the nominal taxable income at our Kerrow Restaurant Operating Business, there was not a significant impact to our reported results resulting from this change.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes, as well as operating loss and tax credit carryforwards. The Company evaluates the realizability of its deferred tax assets and recognizes a valuation allowance if, based on the available evidence, both positive and negative, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers, among other matters, estimates of expected future taxable income, nature of current and cumulative losses, existing and projected book/tax differences, tax planning strategies available, and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Based on an assessment of all factors, including historical losses of the Kerrow Restaurants Operating Business, it was determined that full valuation allowances were required on the net deferred tax assets as of June 30, 2018. Changes in estimates of deferred tax asset realizability are included in "Income tax expense" in the Consolidated Statements of Income.

NOTE 9 – EQUITY

Preferred Stock

At June 30, 2018 and December 31, 2017, the Company was authorized to issue 25,000,000 shares, $0.0001 par value per share of preferred stock. There were no shares issued and outstanding at June 30, 2018 or December 31, 2017.

Common Stock

At June 30, 2018 and December 31, 2017, the Company was authorized to issue 500,000,000 shares, $0.0001 par value per share, of common stock.

In June 2018, we declared a dividend of $0.275 per share, which was paid in July 2018 to common stockholders of record as of June 29, 2018.

At June 30, 2018, there were 62,930,370 shares of the Company's common stock issued and outstanding.

Common Stock Issuance Under the At-The-Market Program

In December 2016, the Company established an “At-the-Market” (“ATM”) equity issuance program under which the Company may, at its discretion, issue and sell its common stock with a sales value of up to a maximum of $150.0 million through ATM offerings on the New York Stock Exchange through broker-dealers. During the three and six months ended June 30, 2018, we sold 1,533,932 shares under the ATM program at a weighted-average selling price of $22.97 per share, for net proceeds of approximately $34.6 million. At June 30, 2018, there was $81.3 million available for issuance under the ATM program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Noncontrolling Interest

At June 30, 2018, there were 409,320 FCPT Operating Partnership Units (“OP units”) outstanding held by third parties. During the six months ended June 30, 2018, FCPT OP did not issue any OP units for consideration in real estate transactions. Generally, OP units participate in net income allocations and distributions and entitle their holder the right, subject to the terms set forth in the partnership agreement, to require the Operating Partnership to redeem all or a portion of the OP units held by such limited partner. At FCPT OP’s option, it may satisfy this redemption with cash or by exchanging non-registered shares of FCPT common stock on a one-for-one basis. Prior to the redemption of OP units, the limited partners participate in net income allocations and distributions in a manner equivalent to the common stock holders. The redemption value of outstanding non-controlling interest OP units was $9.8 million and $10.6 million as of June 30, 2018 and December 31, 2017, respectively.

At June 30, 2018, FCPT is the owner of approximately 99.34% of FCPT’s OP units. The remaining 0.66%, or 409,320 of FCPT’s OP units are held by unaffiliated limited partners. During the six months ended June 30, 2018, FCPT OP distributed $224 thousand to limited partners.

Earnings Per Share

The following table presents the computation of basic and diluted net earnings per common share for the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands except for shares and per share data)	2018	2017	2018	2017
Average common shares outstanding – basic	61,751,530	60,319,521	61,511,183	60,125,477
Net effect of dilutive equity awards	160,169	119,085	150,377	89,573
Average common shares outstanding – diluted	61,911,699	60,438,606	61,661,560	60,215,050
Net income available to common shareholders	$27,445	$ 18,313	$43,699	$ 33,836
Basic net earnings per share	$0.44	$ 0.30	$0.71	$ 0.56
Diluted net earnings per share	$0.44	$ 0.30	$0.71	$ 0.56

For the three months ended June 30, 2018 and 2017, the number of outstanding equity awards that were anti-dilutive totaled 314,050 and 305,221, respectively. For the six months ended June 30, 2018 and 2017, the number of outstanding equity awards that were anti-dilutive totaled 317,313 and 272,269, respectively.

Exchangeable OP units have been omitted from the denominator for the purpose of computing diluted earnings per share since FCPT OP, at its option, may satisfy a redemption with cash or by exchanging non-registered shares of FCPT common stock. The weighted average exchangeable OP units outstanding for the six months ended June 30, 2018 and 2017 was 409,320 and 434,070, respectively.

NOTE 10 – STOCK-BASED COMPENSATION

On October 20, 2015, the Board of Directors of FCPT adopted, and FCPT’s sole stockholder at such time, Rare Hospitality International, Inc., approved, the Four Corners Property Trust, Inc. 2015 Omnibus Incentive Plan (the “Plan”). The Plan provides for the grant of awards of nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, unrestricted stock, dividend equivalent rights, performance shares and other performance-based awards, other equity-based awards, and cash bonus awards to eligible participants. Subject to adjustment, the maximum number of shares of stock reserved for issuance under the Plan is equal to 2,100,000 shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At June 30, 2018, 1,634,657 shares of common stock were available for award under the Plan. The unamortized compensation cost of awards issued under the Incentive Plan totaled approximately $5.0 million at June 30, 2018 as shown in the following table.

(In thousands)	Restricted Stock Units	Restricted Stock Awards	Performance Stock Awards	Total
Unrecognized compensation cost at January 1, 2018	$ 524	$ 1,052	$ 2,302	$3,878
Equity grants	414	1,612	1,180	3,206
Equity grant forfeitures	—	(5)	—	(5)
Equity compensation expense	(371)	(826)	(910)	(2,107)
Unrecognized Compensation Cost at June 30, 2018	$ 567	$ 1,833	$ 2,572	$4,972

At June 30, 2018, the weighted average amortization period remaining for all of our equity awards was 1.6 years.

Restricted Stock Units

RSUs have been granted at a value equal to the five-day average or day of closing market price of our common stock on the date of grant, and will be settled in stock at the end of their vesting periods, which range between one and three years.

At June 30, 2018 and December 31, 2017, there were 78,791 and 64,983 RSUs outstanding, respectively. During the six months ended June 30, 2018, there were 17,896 shares of restricted stock granted, 4,088 restrictions on RSUs lapsed and those shares distributed, and no RSUs were forfeited. Restrictions on these shares lapse through 2019.

Restricted Stock Awards

RSAs have been granted at a value equal to the five-day average closing market price of our common stock on the date of grant and will be settled in stock at the end of their vesting periods, which range between one and three years.

At June 30, 2018 and December 31, 2017, there were 102,254 and 81,909 RSAs outstanding, respectively. During the six months ended June 30, 2018 there were 67,845 shares of restricted stock granted, restrictions on 47,292 RSAs lapsed and those shares were distributed, and 7,126 RSAs were designated for tax withholdings. Restrictions on these shares lapse through 2021.

Performance-Based Restricted Stock Awards

During the six months ended June 30, 2018, PSUs with a target number of 68,490 shares were granted. At June 30, 2018 and December 31, 2017, the target number of PSUs that were unvested was 204,068 and 135,578, respectively. The performance period of the grants run from January 1, 2018 through December 31, 2020, from January 1, 2017 through December 31, 2019, and from January 1, 2016 through December 31, 2018. Pursuant to the performance share award agreement, each participant is eligible to vest in and receive shares of the Company's common stock based on the initial target number of shares granted multiplied by a percentage range between 0% and 200%. The percentage range is based on the attainment of a total shareholder return of the Company compared to certain specified peer groups of companies during the performance period. The fair value of the performance shares was estimated on the date of grant using a Monte Carlo Simulation model. Based on the grant date fair value, the Company expects to recognize $2.6 million in compensation expense on a straight-line basis over the remaining requisite service period associated with these awards.

NOTE 11 –FAIR VALUE MEASUREMENTS

The carrying amounts of certain of the Company’s financial instruments including cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due either to length of maturity or interest rates that approximate prevailing market rates. The carrying value of derivative financial instruments equal fair value in accordance with U.S. GAAP.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. We evaluate hierarchy disclosures each reporting period. The following table presents the assets and liabilities recorded that are reported at fair value on

our Consolidated Balance Sheets on a recurring basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

June 30, 2018

(In thousands)	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets	$ —	$12,284	$ —	$12,284

December 31, 2017

(In thousands)	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets	$ —	$4,997	$ —	$4,997
Liabilities				
Derivative liabilities	$ —	$8	$ —	$8

Derivative Financial Instruments

Currently, we use interest rate swaps to manage our interest rate risk associated with our notes payable. The valuation of these instruments is determined using widely accepted valuation techniques, including 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, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The fair values of interest rate options are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities.

To comply with the provisions of ASC 820, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. We have determined that the significance of the impact of the credit valuation adjustments made to our derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of our derivatives held at June 30, 2018 and December 31, 2017 were classified as Level 2 of the fair value hierarchy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents the carrying value and fair value of certain financial liabilities that are recorded on our consolidated balance sheets.

Fair Value of Certain Financial Liabilities

June 30, 2018

(In thousands)	Carrying Value	Fair Value
Liabilities		
Term loan, excluding deferred financing costs	$400,000	$400,435
Senior fixed note - 7 year, excluding deferred financing costs	$50,000	$48,820
Senior fixed note - 10 year, excluding deferred financing costs	$75,000	$72,726

December 31, 2017

(In thousands)	Carrying Value	Fair Value
Liabilities		
Term loan and revolver balance, excluding deferred financing costs	$400,000	$406,637
Senior fixed note - 7 year, excluding deferred financing costs	$50,000	$50,043
Senior fixed note - 10 year, excluding deferred financing costs	$75,000	$75,184

The fair value of the long-term debt (Level 2) is determined using the present value of the contractual cash flows, discounted at the current market cost of debt.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Rentals

The annual future lease commitments under non-cancelable operating leases for the five years subsequent to June 30, 2018 and thereafter is as follows:

(In thousands)	June 30, 2018
2018 (six months)	$295
2019	550
2020	400
2021	103
Thereafter	—
Total Future Lease Commitments	$1,348

Rental expense was $178 thousand and $156 thousand for the three months ended June 30, 2018 and 2017, and $354 thousand and $313 thousand for the six months ended June 30, 2018 and 2017, respectively.

Litigation

We are subject to private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business from time to time. A number of these lawsuits, proceedings and claims may exist at any given time. These matters typically involve claims from guests, employee wage and hour claims and others related to operational issues common to the restaurant industry. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits, proceedings or claims. While the resolution of a lawsuit, proceeding or claim may have an impact on our financial results for the period in which it is resolved, we believe that the maximum liability related to probable lawsuits, proceedings and claims in which we are currently involved, individually and in the aggregate, will not have a material adverse effect on our financial position, results of operations or liquidity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 13 – SEGMENTS

During the three and six months ended June 30, 2018 and 2017, we operated in two segments: real estate operations and restaurant operations. Our segments are based on our organizational and management structure, which aligns with how our results are monitored and performance is assessed. Expenses incurred at our corporate office are allocated to real estate operations. The accounting policies of the reportable segments are the same as those described in Note 2 - Summary of Significant Accounting Policies.

The following tables present financial information by segment for the three and six months ended June 30, 2018 and 2017.

Three Months Ended June 30, 2018

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental revenue	$ 29,596	$ —	$ —	$29,596
Intercompany rental revenue	100	—	(100)	—
Restaurant revenue	—	5,079	—	5,079
Total revenues	29,696	5,079	(100)	34,675
Expenses:				
General and administrative	3,204	—	—	3,204
Depreciation and amortization	5,100	125	—	5,225
Restaurant expenses	—	4,886	(100)	4,786
Interest expense	4,877	—	—	4,877
Total expenses	13,181	5,011	(100)	18,092
Other income	231	—	—	231
Realized gain on sale, net	10,879	—	—	10,879
Income before income taxes	27,625	68	—	27,693
Income tax expense	(31)	(35)	—	(66)
Net Income	$ 27,594	$ 33	$ —	$27,627

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Three Months Ended June 30, 2017

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental revenue	$ 28,327	$ —	$ —	$ 28,327
Intercompany rental revenue	99	—	(99)	—
Restaurant revenue	—	4,826	—	4,826
Total revenues	28,426	4,826	(99)	33,153
Expenses:				
General and administrative	3,459	—	—	3,459
Depreciation and amortization	5,312	114	—	5,426
Restaurant expenses	—	4,682	(99)	4,583
Interest expense	4,508	—	—	4,508
Total expenses	13,279	4,796	(99)	17,976
Other income	34	—	—	34
Realized gain on sale, net	3,291	—	—	3,291
Income before income taxes	18,472	30	—	18,502
Income tax expense	(28)	(61)	—	(89)
Net Income (Loss)	$ 18,444	$ (31)	$ —	$ 18,413

Six Months Ended June 30, 2018

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental revenue	$ 59,186	$ —	$ —	$ 59,186
Intercompany rental revenue	200	—	(200)	—
Restaurant revenue	—	10,293	—	10,293
Total revenues	59,386	10,293	(200)	69,479
Expenses:				
General and administrative	6,873	—	—	6,873
Depreciation and amortization	10,317	252	—	10,569
Restaurant expenses	—	9,856	(200)	9,656
Interest expense	9,733	—	—	9,733
Total expenses	26,923	10,108	(200)	36,831
Other income	588	—	—	588
Realized gain on sale, net	10,879	—	—	10,879
Income before income taxes	43,930	185	—	44,115
Income tax expense	(62)	(63)	—	(125)
Net Income	$ 43,868	$ 122	$ —	$ 43,990

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six Months Ended June 30, 2017

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental revenue	$ 56,091	$ —	$ —	$56,091
Intercompany rental revenue	197	—	(197)	—
Restaurant revenue	—	9,766	—	9,766
Total revenues	56,288	9,766	(197)	65,857
Expenses:				
General and administrative	6,316	—	—	6,316
Depreciation and amortization	10,594	235	—	10,829
Restaurant expenses	—	9,448	(197)	9,251
Interest expense	8,604	—	—	8,604
Total expenses	25,514	9,683	(197)	35,000
Other income	39	—	—	39
Realized gain on sale, net	3,291	—	—	3,291
Income before income taxes	34,104	83	—	34,187
Income tax expense	(56)	(50)	—	(106)
Net Income (Loss)	$ 34,048	$ 33	$ —	$34,081

The following tables present supplemental information by segment at June 30, 2018 and December 31, 2017.

Supplemental Segment Information at June 30, 2018

(In thousands)	Real Estate Operations	Restaurant Operations	Total
Gross real estate investments	$1,573,515	$ 16,703	$1,590,218
Accumulated depreciation	(598,858)	(6,549)	(605,407)
Total real estate investments, net	$974,657	$ 10,154	$984,811
Cash and cash equivalents	$86,625	$ 1,746	$88,371
Total assets	$1,110,422	$ 12,452	$1,122,874
Long-term debt, net of deferred financing costs	$516,449	$ —	$516,449

Supplemental Segment Information at December 31, 2017

(In thousands)	Real Estate Operations	Restaurant Operations	Total
Gross real estate investments	$1,548,259	$ 16,696	$1,564,955
Accumulated depreciation	(592,293)	(6,553)	(598,846)
Total real estate investments, net	$955,966	$ 10,143	$966,109
Cash and cash equivalents	$63,229	$ 1,237	$64,466
Total assets	$1,056,500	$ 12,159	$1,068,659
Long-term debt, net of deferred financing costs	$515,539	$ —	$515,539

NOTE 14 – SUBSEQUENT EVENTS

The Company reviewed its subsequent events and transactions that have occurred after June 30, 2018, the date of the consolidated balance sheet, through July 26, 2018 and noted the following:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

On July 16, 2018, the Company invested $3.6 million in the acquisition of one property located in Austin, Texas. The property is occupied by Buffalo Wild Wings under a triple-net lease with an approximate remaining lease term of 6 years. The Company funded the acquisition with Section 1031 exchange proceeds and cash on hand. The Company anticipates accounting for this transaction as an asset acquisition in accordance with U.S. GAAP. There were no contingent liabilities associated with this transaction at June 30, 2018.
There were no other material subsequent events or transactions.

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

Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Also, when Four Corners Property Trust, Inc. uses any of the words "anticipate," "assume," "believe," "estimate," "expect," "intend," or similar expressions, Four Corners Property Trust, Inc. is making forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are based upon present expectations and reasonable assumptions, actual results could differ materially from those set forth in the forward-looking statements. Certain factors that could cause actual results or events to differ materially from those anticipated or projected are described in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, as such factors may be updated from time to time in our periodic filings with the Securities and Exchange Commission. Given these uncertainties, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q or any document incorporated herein by reference. Four Corners Property Trust, Inc. undertakes no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K of Four Corners Property Trust, Inc. for the year ended December 31, 2017. Any references to "the Company," "we," "us," or "our" refer to FCPT as an independent, publicly traded, self-administered company.

Overview

We are a Maryland corporation and a real estate investment trust ("REIT") which owns, acquires and leases properties for use in the restaurant and food-service related industries. Substantially all of our business is conducted through Four Corners Operating Partnership, LP ("FCPT OP"), a Delaware limited partnership of which we are a majority limited partner and our wholly owned subsidiary, Four Corners GP, LLC ("FCPT GP"), is its sole general partner. We believe that we have been organized and have operated in conformity with the requirements for qualification and taxation as a REIT commencing with our taxable year ended December 31, 2016, and we intend to continue to operate in a manner that will enable us to maintain our qualification as a REIT.

Our revenues are primarily generated by leasing properties to tenants through net lease arrangements under which the tenants are primarily responsible for ongoing costs relating to the properties, including utilities, property taxes, insurance, common area maintenance charges, and maintenance and repair costs. We focus on income producing properties leased to high quality tenants in major markets across the United States.

In addition to managing our existing properties, our strategy includes investing in additional restaurant and food service real estate properties to grow and diversify our existing restaurant portfolio. We expect this acquisition strategy will decrease that reliance on Darden over time. We intend to purchase properties that are well located and occupied by durable restaurant concepts, with creditworthy tenants whose operating cash flows are expected to meaningfully exceed their lease payments to us. We seek to improve the probability of successful tenant renewal at the end of initial lease terms by acquiring properties that have high levels of restaurant operator profitability compared to rent payments and have absolute rent levels that are not artificially higher than market rates. We also generate revenues by operating six LongHorn Steakhouse® restaurants located in the San Antonio, Texas area (the "Kerrow Restaurant Operating Business") pursuant to franchise agreements with Darden.

During the three months ended June 30, 2018, FCPT acquired nine restaurant properties for a total investment value of $16.9 million, including transaction cost. These properties are 100% occupied under net leases with a weighted average lease term of 13.7 years. During the six months ended June 30, 2018, FCPT acquired 21 restaurant properties in nine states for a total investment of $37.9 million, including transaction costs. These properties are 100% occupied under net leases with a weighted average lease term of 11.1 years.

At June 30, 2018, our wholly-owned lease portfolio had the following characteristics:

- 535 free-standing properties located in 44 states and representing an aggregate leasable area of 3.7 million square feet;
- 99.9% occupancy (based on square feet);
- A weighted average remaining lease term of 12.5 years (based on annualized cash rent);
- Weighted average annual rent escalation of 1.5% (based on annualized cash rent); and
- 87% investment grade tenancy (based on annualized cash rent).

Results of Operations

The following discussion includes the results of our operations for the three months and six months ended June 30, 2018 and 2017 as summarized in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Revenues:				
Rental revenue	$29,596	$28,327	$59,186	$56,091
Restaurant revenue	5,079	4,826	10,293	9,766
Total revenues	34,675	33,153	69,479	65,857
Expenses:				
General and administrative	3,204	3,459	6,873	6,316
Depreciation and amortization	5,225	5,426	10,569	10,829
Restaurant expenses	4,786	4,583	9,656	9,251
Interest expense	4,877	4,508	9,733	8,604
Total expenses	18,092	17,976	36,831	35,000
Other income	231	34	588	39
Realized gain on sale, net	10,879	3,291	10,879	3,291
Income before provision for income taxes	27,693	18,502	44,115	34,187
Income tax expense	(66)	(61)	(125)	(106)
Net income	27,627	18,441	43,990	34,081
Net income attributable to noncontrolling interest	(182)	(128)	(291)	(245)
Net Income Attributable to Common Shareholders	$27,445	$18,313	$43,699	$33,836

During the three and six months ended June 30, 2018, we operated in two segments: real estate operations and restaurant operations.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Real Estate Operations

Rental Revenue

Rental revenue increased $1.3 million, or 4.5%, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017. This increase was due to the acquisition of 32 properties less three properties sold during the year-over-year period from July 1, 2017 through June 30, 2018. We recognize rental income on a straight-line basis to include the effect of base rent escalators, and free rent periods, if any.

Operating Expenses

General and administrative expense is comprised of costs associated with staff, office rent, legal, accounting, information technology, and other professional services and other administrative services in association with our real estate operations and our REIT structure and reporting requirements. General and administrative expense decreased $255 thousand in the three months ended June 30, 2018 compared to the three months ended June 30, 2017, primarily due to decreases in legal and accounting professional fees partially offset by increases in employee salary and non-cash stock compensation expense.

Depreciation and amortization expense represents the depreciation on real estate investments that have estimated lives ranging from two to 55 years. Depreciation and amortization decreased by approximately $201 thousand for the three months ended June 30, 2018 compared to the three months ended June 30, 2017, primarily due to certain assets acquired from Darden becoming fully depreciated during the year and was partially offset by FCPT's acquisition of additional properties.

Interest Expense

We incur interest expense on our $400 million term loan, any outstanding borrowings on our revolving credit facility, interest rate swaps, and our $125 million of senior fixed rate notes. Interest expense increased $0.4 million for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 due to interest expense on the senior fixed rate notes, which were issued in June 2017. This increase was partially offset by a decrease in interest expense on funds borrowed under the revolving credit facility, which were paid down in the second quarter of 2017. As of June 30, 2018 and 2017, we had no outstanding borrowings under the revolving credit facility.

Realized Gain on Sale, Net

During second quareter of 2018, the Company sold one property leased to Darden for total consideration of $16.2 million, resulting in a realized gain on sale of $10.9 million, net of costs to sell. During the second quarter of 2017, the Company sold one property leased to Darden for total consideration of $5.2 million, resulting in a realized gain on sale of $3.3 million, net of costs to sell.

Income Taxes

During the three months ended June 30, 2018 and 2017, our income tax expense was $66 thousand and $61 thousand, respectively. The income tax provision consists of federal, state, and local income taxes incurred by the Kerrow Restaurant Operating Business, and state and local income taxes incurred by FCPT on its lease portfolio.

Restaurant Operations

Restaurant revenues increased by $253 thousand during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 primarily due to a continued emphasis on customer service, increased marketing and outreach, an increase in to-go and catering orders, and a general improvement in casual dining trends. Average revenue per restaurant increased by 5.2% to $847 thousand per location during the three months ended June 30, 2018 compared to the three months ended June 30, 2017.

Total restaurant expenses increased by $203 thousand, or 4.4%, during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 primarily due to an insurance allocation, moving expenses, performance bonuses, and increased staffing.

Six Months Ended June 30, 2018 compared to Six Months Ended June 30, 2017

Real Estate Operations

Rental Revenue

Rental revenue increased $3.1 million, or 5.5%, during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. This increase was due to the acquisition of 32 properties less three properties sold during the year-over-year period. We recognize rental income on a straight-line basis to include the effect of base rent escalators, and free rent periods, if any.

Operating Expenses

General and administrative expense increased $557 thousand in the six months ended June 30, 2018 compared to the six months ended June 30, 2017, primarily due to increases in non-cash stock compensation expense and employee salaries. The increases were partially offset by a decrease in accounting professional fees due to bringing the accounting function in-house in the second quarter of 2017.

Depreciation and amortization decreased $260 thousand for the six months ended June 30, 2018 compared to the six months ended June 30, 2017, primarily due to certain assets acquired from Darden becoming fully depreciated during the year and was partially offset by FCPT's acquisition of additional properties.

Interest Expense

Interest expense increased $1.1 million for the six months ended June 30, 2018 compared to the six months ended June 30, 2017, due to interest expense on the senior fixed rate notes, which were issued in June 2017. This increase was partially offset by a decrease in interest expense on funds borrowed under the revolving credit facility, which were paid down in the second quarter of 2017.

Income Taxes

During the six months ended June 30, 2018 and 2017, our income tax expense was $125 thousand and $106 thousand, respectively. The income tax provision consists of U.S. federal, state, and local income taxes incurred by the Kerrow Restaurant Operating Business, and state and local income taxes incurred by FCPT on its lease portfolio.

Restaurant Operations

Restaurant revenues increased by $527 thousand during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 primarily due to a continued emphasis on customer service, increased marketing and outreach, an increase in to-go and catering orders, and a general improvement in casual dining trends. Average revenue per restaurant increased by 5.4% to $1.72 million per location during the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

Total restaurant expenses increased by $405 thousand, or 4.4% during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 primarily due to an insurance allocation, moving expenses, performance bonuses, and increased staffing.

Critical Accounting Policies

The preparation of FCPT's consolidated financial statements in conformance with GAAP requires management to make estimates on assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as other disclosures in the financial statements. On an ongoing basis, management evaluates its estimates and assumptions; however, actual results may differ from these estimates and assumptions, which in turn could have a material impact on our financial statements. A summary of FCPT's critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2017 in the section entitled “Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates.” Management believes those critical accounting policies, among others, affect our more significant estimates and assumptions used in the preparation of our consolidated financial statements.

New Accounting Standards

A discussion of new accounting standards and the possible effects of these standards on our consolidated financial statements is included in Note 2 - Summary of Significant Accounting Policies of our consolidated financial statements, included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Liquidity and Financial Condition

At June 30, 2018, we had $88.4 million of cash and cash equivalents and $250.0 million of borrowing capacity under our revolving credit facility, which expires on November 9, 2021, subject to our ability to extend the term for two additional six-month periods to November 9, 2022. The revolving credit facility provides for a letter of credit sub-limit of $25 million. See Note 6 - Long-Term Debt, Net of Deferred Financing Costs included in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information. As of June 30, 2018, we had no outstanding borrowings under our revolving credit facility and no outstanding letters of credit. The credit facility also includes a $400 million, non-amortizing term loan that is due on November 9, 2022.

We have an effective shelf registration statement on file with the Securities and Exchange Commission (“SEC”) under which we may issue equity financing through the instruments and on the terms most attractive to us at such time. During the three and six months ended June 30, 2018, we issued 1,533,932 shares under our “At-the-Market” (“ATM”) equity issuance program at a weighted-average selling price of $22.97 per share, for net proceeds of approximately $34.6 million. The proceeds will be employed to fund acquisitions and for general corporate purposes. At June 30, 2018, $81.3 million in gross proceeds capacity remained available under the ATM program.

On June 7, 2017, FCPT OP issued $125 million of senior, unsecured, fixed rate notes (the “Notes”) guaranteed by the Company and FCPT OP. The Notes consisted of $50 million of notes with a seven-year term due June 2024, priced at a fixed interest rate of 4.68%, and $75 million of notes with a ten-year term due June 2027 priced at a fixed interest rate of 4.93%. The Company used the net proceeds from the offering to reduce amounts outstanding under its unsecured credit facility, and the remaining proceeds to fund future acquisitions and for general corporate purposes.

On October 2, 2017, FCPT OP amended and restated the Loan Agreement related to its senior unsecured revolving credit facility and term loan facility (the “Amended and Restated Credit Agreement”). The Amended and Restated Credit Agreement provides for a $250 million unsecured revolving credit facility and a $400 million unsecured term loan facility. The unsecured revolving credit facility matures in November 2021 with two six-month options to extend the maturity date to November 2022. The unsecured term loan facility matures in November 2022. FCPT OP has the ability to increase the aggregate borrowing capacity under the credit agreement up to an additional $250 million, subject to lender approval. Loans under the Amended and Restated Credit Agreement accrue interest at a per annum rate equal to, at FCPT OP’s election, either a LIBOR rate plus a margin of 0.85% to 2.15%, or a base rate determined according to a prime rate or federal funds rate plus a margin of 0.00% to 1.15%. Additionally, FCPT OP is required to pay an unused commitment fee at an annual rate of 0.30% or 0.20% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The Amended and Restated Credit Agreement contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio, and a maximum percentage of secured debt to total asset value.

On a long-term basis, our principal demands for funds include payment of dividends, financing of property acquisitions, and scheduled debt maturities. We plan to meet our long-term capital needs by issuing debt or equity securities or by obtaining asset-level financing, subject to market conditions. In addition, we may issue common stock to permanently finance properties that were financed on an intermediate basis by our revolving credit facility or other indebtedness. In the future, we may also acquire properties by issuing partnership interests of FCPT OP in exchange for property owned by third parties. Our common partnership interests would be redeemable for cash or shares of our common stock.

We continually evaluate alternative financing and believe that we can obtain financing on reasonable terms. However, we cannot assure you that we will have access to the capital markets at times and at terms that are acceptable to us. We expect that our primary uses of capital will be for property and other asset acquisitions and the funding of tenant improvements and other capital expenditures, and debt refinancing.

Because the properties in our portfolio are generally leased to tenants under net leases, where the tenant is responsible for property operating costs and expenses, our exposure to rising property operating costs due to inflation is mitigated. Interest rates and other factors, such as occupancy, rental rate and the financial condition of our tenants, influence our performance more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. As described above, we currently offer leases that provide for payments of base rent with scheduled annual fixed increases.

Contractual Obligations

There were no material changes outside the ordinary course of business to the information regarding specified contractual obligations contained in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

Off-Balance Sheet Arrangements

At June 30, 2018, we had no off-balance sheet arrangements.

Supplemental Financial Measures

The following tables presents a reconciliation of U.S. GAAP net income to National Association of Real Estate Investment Trusts ("NAREIT") funds from operations ("FFO") and adjusted funds from operations ("AFFO") for the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except share and per share data)	2018	2017	2018	2017
Net income	$27,627	$ 18,441	$43,990	$ 34,081
Depreciation and amortization on real estate investments	5,209	5,419	10,540	10,814
Realized gain on sales of real estate	(10,879)	(3,291)	(10,879)	(3,291)
Realized gain on exchange of real estate (1)	—	—	(228)	—
FFO (as defined by NAREIT)	$21,957	$ 20,569	$43,423	$ 41,604
Straight-line rent	(2,280)	(2,422)	(4,563)	(4,795)
Non-cash stock-based compensation	924	704	2,107	1,198
Non-cash amortization of deferred financing costs	455	415	910	813
Other non-cash interest (income) expense	(1)	11	(6)	63
Non-real estate investment depreciation	16	7	29	15
Amortization of above and below market leases	15	—	31	—
Adjusted Funds from Operations (AFFO)	$21,086	$ 19,284	$41,931	$ 38,898
Fully diluted shares outstanding (2)	62,321,019	60,870,695	62,070,880	60,649,120
FFO per diluted share	$0.35	$ 0.34	$0.70	$ 0.69
AFFO per diluted share	$0.34	$ 0.32	$0.68	$ 0.64

(1) Non-cash gain recognized for GAAP purposes on the transfer of nonfinancial assets related to an excess land parcel exchange.

(2) Assumes the issuance of common shares for OP units held by non-controlling partners.

Non-GAAP Definitions

The certain non-GAAP financial measures included above management believes are helpful in understanding our business, as further described below. Our definition and calculation of non-GAAP financial measures may differ from those of other REITs and therefore may not be comparable. The non-GAAP measures should not be considered an alternative to net income as an indicator of our performance and should be considered only a supplement to net income, and to cash flows from operating, investing or financing activities as a measure of profitability and/or liquidity, computed in accordance with GAAP.

FFO is a supplemental measure of our performance which should be considered along with, but not as an alternative to, net income and cash provided by operating activities as a measure of operating performance and liquidity. We calculate FFO in accordance with the standards established by the NAREIT. FFO represents net income (loss) computed in accordance with GAAP, excluding gains (or losses) from sales of property and undepreciated land and impairment write-downs of depreciable real estate, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. We also omit the tax impact of non-FFO producing activities from FFO determined in accordance with the NAREIT definition.

Our management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We offer this measure because we recognize that FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or

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market conditions, nor the level of capital expenditures and capitalized leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our financial condition and results from operations, the utility of FFO as a measure of our performance is limited. FFO is a non-GAAP measure and should not be considered a measure of liquidity including our ability to pay dividends or make distributions. In addition, our calculations of FFO are not necessarily comparable to FFO as calculated by other REITs that do not use the same definition or implementation guidelines or interpret the standards differently from us. Investors in our securities should not rely on these measures as a substitute for any GAAP measure, including net income.

Adjusted Funds from Operations is a non-U.S. GAAP measure that is used as a supplemental operating measure specifically for comparing year-over-year ability to fund dividend distribution from operating activities. AFFO is used by us as a basis to address our ability to fund our dividend payments. We calculate AFFO by adding to or subtracting from FFO:

1. Transaction costs incurred in connection with business combinations
2. Straight-line rent revenue adjustment
3. Non-cash stock-based compensation expense
4. Non-cash amortization of deferred financing costs
5. Other non-cash interest expense (income)
6. Non-real estate investment depreciation
7. Merger, restructuring and other related costs
8. Impairment charges
9. Amortization of above and below market leases
10. Amortization of capitalized leasing costs
11. Debt extinguishment gains and losses
12. Recurring capital expenditures and tenant improvements

AFFO is not intended to represent cash flow from operations for the period, and is only intended to provide an additional measure of performance by adjusting the effect of certain items noted above included in FFO. AFFO is a widely reported measure by other REITs; however, other REITs may use different methodologies for calculating AFFO and, accordingly, our AFFO may not be comparable to other REITs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information concerning market risk is incorporated herein by reference to Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as supplemented by the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations." Other than the developments described thereunder, including changes in the fair values of our assets, there have been no other material changes in our quantitative or qualitative exposure to market risk since December 31, 2017.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

In the ordinary course of our business, we are party to various claims and legal actions that management believes are routine in nature and incidental to the operation of our business. Management believes that the outcome of these proceedings will not have a material adverse effect upon our operations, financial condition or liquidity.

Item 1A. Risk Factors.

There have been no material changes to the risk factors as disclosed in the section entitled "Risk Factors" beginning on page 10 of our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits issued in the accompanying Index to Exhibits are filed as part of this Form 10-Q and incorporated herein by reference.

INDEX TO EXHIBITS

Exhibit Number	Description
31 (a)	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31 (b)	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32 (a)	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32 (b)	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

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

FOUR CORNERS PROPERTY TRUST, INC.

Dated:	July 26, 2018	By:	/s/ William H. Lenehan
			William H. Lenehan
			President and Chief Executive Officer
			(Principal Executive Officer)
Dated:	July 26, 2018	By:	/s/ Gerald R. Morgan
			Gerald R. Morgan
			Chief Financial Officer
			(Principal Financial Officer)
Dated:	July 26, 2018	By:	/s/ Niccole M. Stewart
			Niccole M. Stewart
			Chief Accounting Officer
			(Principal Accounting Officer)