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Four Corners Property Trust, Inc.

Form 10-Q

August 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number 1-37538

Four Corners Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland 47-4456296
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

591 Redwood Highway, Suite 1150 94941
Mill Valley, California
(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. 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). 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 Accelerated filer Non-accelerated filer (do not check if a smaller reporting
Smaller reporting company Emerging growth company company)

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

Number of shares of common stock outstanding as of August 8, 2017: 61,193,753

FOUR CORNERS PROPERTY TRUST, INC.
FORM 10 - Q
THREE AND SIX MONTHS ENDED JUNE 30, 2017
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FOUR CORNERS PROPERTY TRUST, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Real estate investments:		
Land	\$441,035	\$421,941
Buildings, equipment and improvements	1,098,306	1,055,624
Total real estate investments	1,539,341	1,477,565
Less: Accumulated depreciation	(589,913)	(583,307)
Total real estate investments, net	949,428	894,258
Real estate held for sale	1,691	—
Cash and cash equivalents	81,328	26,643
Deferred rent	16,389	11,594
Derivative assets	1,630	837
Other assets	3,827	3,819
Total Assets	\$1,054,293	\$937,151
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of deferred financing costs	\$518,018	\$438,895
Dividends payable	14,820	14,519
Deferred rental revenue	8,228	7,974
Deferred tax liabilities	157	196
Other liabilities	4,932	5,450
Total liabilities	546,155	467,034
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, 61,193,753 and 59,923,557 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	6	6
Additional paid-in capital	468,933	438,864
Retained earnings	30,423	25,943
Accumulated other comprehensive income	1,059	207
Noncontrolling interest	7,717	5,097
Total equity	508,138	470,117
Total Liabilities and Equity	\$1,054,293	\$937,151

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Rental income	\$28,327	\$26,192	\$56,091	\$52,385
Restaurant revenues	4,826	4,701	9,766	9,560
Total revenues	33,153	30,893	65,857	61,945
Operating expenses:				
General and administrative	3,459	2,508	6,316	5,826
Depreciation and amortization	5,426	5,101	10,829	10,288
Restaurant expenses	4,583	4,593	9,251	9,291
Interest expense	4,508	3,858	8,604	8,039
Total expenses	17,976	16,060	35,000	33,444
Other income	34	18	39	78
Realized gain on sale, net	3,291	—	3,291	—
Income before income taxes	18,502	14,851	34,187	28,579
Income tax (expense) benefit	(61)	(50)	(106)	80,506
Net income	18,441	14,801	34,081	109,085
Net income attributable to noncontrolling interest	(128)	—	(245)	—
Net Income Available to Common Shareholders	\$18,313	\$14,801	\$33,836	\$109,085
Basic net income per share:	\$0.30	\$0.25	\$0.56	\$2.02
Diluted net income per share:	\$0.30	\$0.25	\$0.56	\$1.84
Weighted average number of common shares outstanding:				
Basic	60,319,525	59,830,284	60,125,475	54,102,565
Diluted ⁽¹⁾	60,430,606	59,844,059	60,215,056	59,271,807
Dividends declared per common share	\$0.2425	\$0.2425	\$0.4850	\$0.4850

(1) Includes 17,085,566 shares issued on March 2, 2016 as part of our purging distribution to satisfy certain REIT requirements. For financial reporting purposes, these shares were assumed to have been issued on January 7, 2016.

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

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,	
	2017	2016	2017	2016
Net income	\$ 18,441	\$ 14,801	\$ 34,081	\$ 109,085
Other comprehensive (loss) income:				
Effective portion of change in fair value of derivative instruments:				
Effective portion of change in fair value of derivative instruments	(839)	(3,067)	(179)	(10,510)
Reclassification adjustment of derivative instruments included in net income	409	979	1,034	1,964
Other comprehensive (loss) income:	(430)	(2,088)	855	(8,546)
Comprehensive income	18,011	12,713	34,936	100,539
Less: comprehensive income attributable to noncontrolling interest				
Net income attributable to noncontrolling interest	128	—	245	—
Other comprehensive income (loss) attributable to noncontrolling interest	(7)	—	3	—
Comprehensive income attributable to noncontrolling interest	121	—	248	—
Comprehensive Income Attributable to Common Shareholders	\$ 17,890	\$ 12,713	\$ 34,688	\$ 100,539

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	Retained	Accumulated	Noncontrolling	Total
	Shares	Par Value	Paid-in Capital	Earnings	Other Comprehensive Income	Interest	
Balance at December 31, 2016	59,923,557	\$ 6	\$438,864	\$25,943	\$ 207	\$ 5,097	\$470,117
Net income	—	—	—	33,836	—	245	34,081
Other comprehensive income	—	—	—	—	852	3	855
Issuance of OP units, net	—	—	—	—	—	2,621	2,621
ATM proceeds, net of issuance costs	1,216,992	—	28,871	—	—	—	28,871
Dividends and distributions to equity holders	—	—	—	(29,356)	—	(249)	(29,605)
Stock-based compensation, net	53,204	—	1,198	—	—	—	1,198
Balance at June 30, 2017	61,193,753	\$ 6	\$468,933	\$30,423	\$ 1,059	\$ 7,717	\$508,138

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,	
	2017	2016
Cash flows - operating activities		
Net income	\$34,081	\$109,085
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	10,829	10,288
Gain on disposal of land, building, and equipment	(3,291)	—
Amortization of financing costs	813	796
Stock-based compensation expense	1,198	742
Deferred income taxes	(39)	(80,675)
Changes in assets and liabilities:		
Derivative assets	62	436
Deferred rental asset	(4,795)	(5,191)
Deferred rental revenue	254	(74)
Other assets and liabilities	122	(2,138)
Net cash provided by operating activities	39,234	33,269
Cash flows - investing activities		
Purchases of fixed assets	(64,013)	(24)
Net proceeds from sale of fixed assets	5,001	—
Advance deposits on acquisition of operating real estate	(122)	—
Cash used in investing activities	(59,134)	(24)
Cash flows - financing activities		
Net proceeds from equity issuance	28,871	—
Proceeds from issuance of senior notes	125,000	—
Payment of deferred financing costs	(1,690)	—
Proceeds from revolving credit facility	36,000	—
Payment of dividend to shareholders	(29,054)	(92,586)
Distribution to non-controlling interests	(249)	—
Redemption of non-controlling interests	(988)	—
Repayment of debt assumed in purchase of real estate investments	(2,305)	—
Repayment of revolving credit facility	(81,000)	—
Net cash provided by (used in) financing activities	74,585	(92,586)
Net increase (decrease) in cash and cash equivalents	54,685	(59,341)
Cash and cash equivalents, beginning of period	26,643	98,073
Cash and cash equivalents, end of period	\$81,328	\$38,732
Supplemental disclosures:		
Dividends declared but not paid	\$14,820	\$14,509
Interest paid	\$7,724	\$6,556
Taxes paid	\$333	\$2,295
Non-cash investing and financing activities:		
Repayment of debt assumed in purchase of real estate investments	\$2,305	
Change in fair value of derivative instruments	\$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 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 own 418 properties (the “Properties” or “Property”) 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 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 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 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 statement 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. The Company reclassified 2016 interest income earned on its cash and marketable securities from rental income to other income. The reclassification totaled \$18 thousand and \$78 thousand for the three and six months ended June 30, 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 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 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 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 evaluated the acquisitions and concluded that the land, building, site improvements, and in-place leases (if any) were a single asset. 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. As substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset, 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 site 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, including the pre-acquisition due diligence and leasing activities of the Company.

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 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- 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

revenue over the remaining initial term of the respective leases, including renewal options. Should a lease terminate early, the unamortized portion of any related lease intangible is immediately recognized in impairment loss in the Company's consolidated statements of operations.

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 our assets held for sale. 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.

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. Restaurant sites and certain other assets to be disposed of are included in assets held for sale when the likelihood of disposing of these assets within one year is probable. 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.

In the second quarter of 2017, the Company sold one property leased to Darden for total consideration of \$5.2 million. The sale was the result of an unsolicited offer and resulted in a net gain of \$3.3 million after costs to sell. Additionally, the Company expects to finalize the sale of one property leased to Darden for approximately \$5.9 million in the third quarter of 2017. This prospective sale is from an unsolicited offer and would result in a gain of approximately \$4.2 million.

Cash and Cash Equivalents

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.

Derivative Instruments and Hedging Activities

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments as required by Financial Accounting Standards Board ("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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

See Note 7 - Derivative Financial Instruments for additional information.

Other Assets and Liabilities

Other assets primarily consist of intangible lease assets, pre-acquisition costs, prepaid assets, inventories, and accounts receivable. Other liabilities primarily consist of accrued compensation, accrued interest, accrued operating expenses, and deferred rent obligations on certain operating leases.

Notes Payable

Notes payable are carried at their unpaid principal balance, net of deferred financing costs. This long-term debt is 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 until the principal is paid in whole or matures at a future date.

See Note 6 - Notes Payable, Net of Deferred Financing Costs for additional information.

Deferred Financing Costs

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 balance sheets.

Revenue Recognition

Rental income

For those triple-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 straight-line rent receivable.

Taxes collected from lessees and remitted to governmental authorities are presented on a net basis within rental income in our consolidated statements of 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.

Income from rent, lease termination fees and all other income is recognized when all of the following criteria are met in accordance with SEC Staff Accounting Bulletin 104: (i) the applicable agreement has been fully executed and delivered; (ii) services have been rendered; (iii) the amount is fixed or determinable; and (iv) collectability is reasonably assured.

We assess the collectability of our lease receivables, including straight-line receivables. We base our assessment of the collectability of rent receivables (other than straight-line 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 straight-line 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 straight-line 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 is recognized when food and beverage products are sold. 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.

On January 1, 2017, the Company adopted ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," which applies to inventory that is measured using first-in, first-out or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, first-out. Adoption of this guidance did not have a material impact on our consolidated financial statements or related disclosures.

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 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. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Tax accounting guidance 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. At June 30, 2017, none of the Company’s equity awards qualified as participating securities.

See Note 9 - Stockholders’ 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 five years, less estimated forfeitures. No compensation cost is recognized for awards for which employees do not render the requisite services.

Effective January 1, 2017, the Company adopted ASU No. 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which amends how companies account for certain aspects of share-based payments to employees. The new guidance required all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allowed an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Application of New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". 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 to which the entity expects to be entitled to receive for those goods or services. On July 9, 2015, the FASB decided to delay the effective date of ASU 2014-09 for one year. The standard is now effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption for annual periods beginning after December 15, 2016 and interim periods within those annual periods is permitted. We will adopt this standard retrospectively with the cumulative effect recognized at the date of initial application. We do not expect adoption of this guidance to have a material impact on our consolidated financial statements or related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", which supersedes the existing guidance for lease accounting, Leases (Topic 840). 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. 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.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments." 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. ASU 2016-15 is effective for periods beginning after December 15, 2017, with early adoption permitted and shall be applied retrospectively where practicable. We do not expect adoption of this guidance to have a material impact on our consolidated financial statements or related disclosures.

In May 2017, the FASB issued 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. ASU No. 2017-09 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted, and should be applied prospectively to an award modified on or after the adoption date. We do not expect adoption of this guidance to have a material impact on our consolidated financial statements or related disclosures.

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 90% of the scheduled base rents from the properties we own. As our revenues predominately consist of rental payments, we are dependent on Darden for substantially all 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 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 59% of our leased properties and approximately 67% of the revenues received under leases. Our properties, including our Kerrow restaurants, are located in 44 states, with concentrations of 10% or greater of total rental revenue in two states: Florida (11%) and Texas (11%).

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents. 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, 2017, our exposure to risk

related to our derivative instruments totaled \$1.6 million and the counterparty to such instruments is an investment grade financial institution. Our credit risk exposure with regard to our cash and the \$350.0 million available capacity under the revolver portion of our credit facility is spread among a diversified group of investment grade financial institutions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – REAL ESTATE INVESTMENTS, NET

Real Estate Investments, Net

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

	June 30,	December
	2017	2016
(In thousands)		
Land	\$441,035	\$421,941
Buildings and improvements	960,075	916,444
Equipment	138,231	139,180
Total gross real estate investments	1,539,341	1,477,565
Less: accumulated depreciation	(589,913)	(583,307)
Total Real Estate Investments, Net	\$949,428	\$894,258

During the six months ended June 30, 2017, the Company invested \$69.8 million, including transaction costs, in thirty-two restaurant properties located in fourteen states, and allocated the investment as follows: \$20.8 million to land, \$48.3 million to buildings and improvements, and \$0.7 million to intangible assets related to leases. There was no contingent consideration associated with these acquisitions. These properties are 100% occupied under triple-net leases, with a weighted average lease term of 18.3 years. The Company accounted for these transactions as asset acquisitions in accordance with U.S. GAAP.

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)	2017
2017 (six months)	\$52,836
2018	106,926
2019	108,490
2020	110,032
2021	111,494
2022	113,263
Thereafter	968,605
Total Future Minimum Lease Payments	\$1,571,646

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

Other Assets

The components of other assets were as follows:

	June 30, 2017	December 31, 2016
(In thousands)		
Intangible lease assets	\$2,301	\$ 1,772
Prepaid acquisition costs	317	438
Prepaid assets	414	614
Inventories	152	202
Accounts receivable	207	162
Other	436	631
Total Other Assets	\$3,827	\$ 3,819

Lease Intangibles, Net

The following table details lease intangible assets, net of accumulated amortization, which are included in Other Assets on our consolidated balance sheets:

	June 30, 2017	December 31, 2016
(In thousands)		
In-place leases	\$2,498	\$ 1,809
Less: Accumulated amortization	(197)	(37)
Intangible Lease Assets, Net	\$2,301	\$ 1,772

The value of in-place leases amortized and included in depreciation and amortization expense for the three and six months ended June 30, 2017 was \$80 thousand and \$160 thousand, respectively. There was no amortization expense for intangible lease assets for the three or six months ended June 30, 2016. There were no above or below market intangible assets or liabilities at June 30, 2017 or December 31, 2016.

Based on the balance of intangible assets at June 30, 2017, the net aggregate amortization expense for the next five years and thereafter is expected to be as follows:

	June 30, 2017
(In thousands)	
2017 (six months)	\$ 133
2018	217
2019	217
2020	211
2021	190
2022	183
Thereafter	1,150
Total Future Amortization Expense	\$2,301

Other Liabilities

The components of other liabilities were as follows:

	June	December
(In thousands)	2017	2016
Accounts payable	\$545	\$ 726
Accrued operating expenses	949	759
Accrued interest expense	1,137	1,134
Deferred lease liability	653	634
Accrued compensation	895	1,296
Other	753	901
Total Other Liabilities	\$4,932	\$ 5,450

NOTE 6 – NOTES PAYABLE, NET OF DEFERRED FINANCING COSTS

On February 14, 2017, FCPT OP, FCPT and certain of its subsidiaries, as guarantors, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto entered into a second amendment (the “Loan Agreement Amendment”) to the Revolving Credit and Term Loan Agreement (as amended, the “Loan Agreement”), for the purpose of, among other things, permitting an incurrence of additional unsecured debt in an aggregate principal amount of at least \$50 million. The Loan Agreement Amendment further provides that, upon the incurrence of such additional unsecured debt, (A) all pledges of equity interests that secure the Loan Agreement, and all subsidiary guarantees of the Loan Agreement, will be released and (B) the financial covenant requirements in relation to maximum leverage and minimum debt service coverage will be adjusted in the manner set forth in the Loan Agreement Amendment. In addition, the Loan Agreement Amendment increases the minimum Consolidated Tangible Net Worth requirement from \$845.7 million to \$868.9 million. The Loan Agreement Amendment also contains customary representations and warranties by FCPT OP.

On June 7, 2017, the FCPT OP issued \$125.0 million of senior, unsecured, fixed rate notes (the “Notes”) in a private placement pursuant to a Note Purchase Agreement (the “Note Purchase Agreement”) with the various purchasers named therein (the “Purchasers”). The Notes consist of \$50.0 million of notes with a seven-year term priced at a fixed interest rate of 4.68% (the “Series A Notes”), and \$75.0 million of notes with a ten-year term priced at a fixed interest rate of 4.93% (the “Series B Notes”), resulting in a weighted average maturity of 8.8 years as of June 7, 2017 and a weighted average fixed interest rate of 4.83%. The all-in pricing represented 235 basis points and 240 basis points above the 7-year and 10-year U.S. Treasury rates, respectively, at the time of pricing.

Under the terms of the Note Purchase Agreement, the Notes have the same guarantors as the Loan Agreement. The Note Purchase Agreement contains customary financial covenants, including a total leverage ratio, a mortgage-secured leverage ratio, a secured recourse leverage ratio, a fixed charge coverage ratio, a minimum net worth requirement, an unhedged floating rate debt ratio, an unencumbered leverage ratio and an unencumbered interest coverage ratio. The Note Purchase Agreement also contains restrictive covenants that, among other things, restrict the ability of FCPT OP, the Company and their subsidiaries to enter into transactions with affiliates, merge, consolidate, create liens or make certain restricted payments. Such financial and restrictive covenants are substantially similar to the corresponding covenants contained in the Existing Credit Agreement. In addition, the Note Purchase Agreement includes provisions providing that certain of such covenants will be automatically amended in the Note Purchase Agreement to conform to certain amendments that may from time to time be implemented to corresponding covenants under the Loan Agreement.

The Note Purchase Agreement contains customary events of default, including payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events. In the case of an event of default, the Purchasers may, among other remedies, accelerate the payment of all obligations.

The Company used a portion of the net proceeds from the offering to reduce amounts outstanding under its unsecured credit facility, and intends to use the remaining proceeds to fund future acquisitions and for general corporate purposes.

The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any state or other jurisdiction, and may not be offered or sold in the United States or any other jurisdiction absent registration or an applicable exemption from the registration requirements of the Securities Act and the applicable securities laws of any state or other jurisdiction. FCPT OP offered and sold the Notes in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act.

At June 30, 2017, our notes payable consisted of (1) a \$400 million, non-amortizing term loan and (2) \$125.0 million of senior, unsecured, fixed rate notes. At December 31, 2016, our notes payable consisted of (1) a \$400 million, non-amortizing term loan and (2) \$45 million in outstanding borrowings under the revolving credit facility which was paid off in June 2017 from the proceeds of the Notes.

At June 30, 2017 and December 31, 2016, the net unamortized deferred financing costs were approximately \$7.0 million and \$6.1 million, respectively. The weighted average interest rate on the term loan before consideration of the interest rate hedge described below was 2.8% and 2.36% at June 30, 2017 and December 31, 2016, respectively.

During the three months ended June 30, 2017 and 2016, amortization of deferred financing costs was \$415 thousand and \$398 thousand, respectively. During the six months ended June 30, 2017 and June 30, 2016, amortization of deferred financing costs was \$813 thousand and \$796 thousand, respectively. At June 30, 2017 there was no balance outstanding under the revolving credit facility. At December 31, 2016, there was \$45.0 million outstanding under the revolving credit facility with a weighted average interest rate of 2.46%. There were no outstanding letters of credit at June 30, 2017 or December 31, 2017.

The Company was in compliance with all debt covenants at June 30, 2017 and December 31, 2016.

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 effective portion of changes 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, 2017, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

For the three months ended June 30, 2017 and 2016, we recorded approximately \$40 thousand of income and \$5 thousand of expense, respectively, of hedge ineffectiveness in earnings. For the six months ended June, 2017 and 2016, we recorded approximately \$36 thousand of income and \$353 thousand of expense, respectively, of hedge ineffectiveness in earnings. The hedge ineffectiveness is 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 \$195 thousand will be reclassified to earnings as an increase to interest expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Non-designated Hedges

We do not use derivatives for trading or speculative purposes. During the six months ended June 30, 2017 and 2016, we did not have any derivatives that were not designated as cash flow hedges.

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, 2017 and December 31, 2016.

(Dollars in thousands)	Derivative Assets		Fair Value at		Derivative Liabilities		Fair Value at	
	Balance Sheet Location		June	December	Balance Sheet Location		June	December
			30, 2017	31, 2016			30, 2017	31, 2016
Derivatives designated as hedging instruments:								
Interest rate swaps	Derivative assets		\$ 1,630	\$ 837	Derivative liabilities		\$ —	—
Total			\$ 1,630	\$ 837			\$ —	—

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 months ended June 30, 2017 and 2016.

(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)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amounts Excluded from Effectiveness Testing)
Three months ended June 30, 2017	\$ (839)	Interest expense	\$ (409)	Interest expense	\$ 40
Three months ended June 30, 2016	\$ (3,067)	Interest expense	\$ (979)	Interest expense	\$ (5)
Six months ended June 30, 2017	\$ (179)	Interest expense	\$ (1,034)	Interest expense	\$ 36
Six months ended June 30, 2016	\$ (10,510)	Interest expense	\$ (1,964)	Interest expense	\$ (353)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 2017 and December 31, 2016. 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, 2017	\$ 1,630	\$ —	—\$ 1,630	\$ —	\$ —	—\$ 1,630
December 31, 2016	837	—	837	—	—	837

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, 2017 and December 31, 2016, the fair value of derivatives in a net asset position related to these agreements was approximately \$1.6 million and \$837 thousand, respectively. As of June 30, 2017, we have not posted any collateral related to these agreements. If we or our counterparty had breached any of these provisions at June 30, 2017, we would have received the termination value of \$1.6 million.

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 federal income taxes has been included in the accompanying consolidated financial statements for the six months ended June 30, 2017 related to the REIT. However, FCPT's TRSs will generally be subject to federal, state, and local income taxes.

During the three months ended June 30, 2017 and 2016, our income tax provision was \$61 thousand and \$50 thousand, respectively, and was due to income taxes incurred at the Kerrow Restaurant Operating Business, a taxable REIT subsidiary.

During the six months ended June 30, 2017 and 2016, we recognized an income tax expense of \$106 thousand and a benefit of \$80.5 million. The 2017 provision was primarily due to income taxes incurred at the Kerrow Restaurant Operating Business. The income tax benefit recognized during the six months ended June 30, 2016 was principally the result of the reversal of deferred tax liabilities associated with activities no longer expected to be subject to federal taxation as a result of our intention to elect to be taxed as a REIT commencing with the year ended December 31, 2016.

NOTE 9 – STOCKHOLDERS' EQUITY

Preferred Stock

At June 30, 2017 and December 31, 2016, 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, 2017 or December 31, 2016.

Common Stock

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At June 30, 2017 and December 31, 2016, the Company was authorized to issue 500,000,000 shares, \$0.0001 par value per share, of common stock.

In March 2017, we declared a dividend of \$0.2425 per share, which was paid in April 2017 to common stockholders of record as of March 31, 2017. In June 2017, we declared a dividend of \$0.2425 per share, which was paid in July 2017 to common stockholders of record as of June 30, 2017.

At June 30, 2017, there were 61,193,753 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 six months ended June 30, 2017, we sold 1,216,992 shares under the ATM program at a weighted-average selling price of \$24.12 per share, for net proceeds of approximately \$28.9 million (after issuance costs). At June 30, 2017 there was \$120.0 million available for issuance under the ATM program.

Noncontrolling Interest

At June 30, 2017, there were 409,320 OP units outstanding held by third parties. During the six months ended June 30, 2017, FCPT OP issued 174,576 OP units as partial consideration for the acquisitions of four properties and redeemed 40,000 OP units for cash consideration of \$988 thousand at a 10-day share price preceding average of \$24.71 to an unaffiliated limited partner. Generally, common 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 units, the limited partners participate in net income allocations and distributions. The redemption value of outstanding non-controlling interest OP units was \$10.4 million and \$5.5 million as of June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017, 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, 2017, FCPT OP distributed \$249 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 months ended June 30, 2017 and 2016.

	Three Months Ended June 30,	
(In thousands except for per share data)	2017	2016
Average common shares outstanding – basic	60,320	59,830
Net effect of dilutive equity awards	111	14
Average common shares outstanding – diluted	60,431	59,844
Net income available to common shareholders	\$18,313	\$14,801
Basic net earnings per share	\$0.30	\$0.25
Diluted net earnings per share	\$0.30	\$0.25

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 three months ended June 30, 2017 were 440,089.

The following table presents the computation of basic and diluted net earnings per common share for the six months ended June 30, 2017 and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands except for per share data)	Six Months Ended	
	June 30,	
	2017	2016
Average common shares outstanding – basic	60,125	54,103
Net effect of dilutive equity awards	90	6
Net effect of shares issued with respect to Pre-Spin Dividend	—	5,163
Average common shares outstanding – diluted	60,215	59,272
Net income available to common shareholders	\$33,836	\$109,085
Basic net earnings per share	\$0.56	\$2.02
Diluted net earnings per share	\$0.56	\$1.84

For the three months ended June 30, 2017 and 2016, the number of outstanding equity awards that were anti-dilutive totaled 305,221 and 232,968, respectively. For the six months ended June 30, 2017 and 2016, the number of outstanding equity awards that were anti-dilutive totaled 272,269 and 201,190, 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, 2017 were 434,070.

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.

At June 30, 2017, 1,792,925 shares of common stock were available for award under the Plan. The unamortized compensation cost of awards issued under the Incentive Plan totaled \$5.2 million at June 30, 2017 as shown in the following table.

(In thousands)	Restricted	Restricted	Performance	Total
	Stock	Stock	Stock	
	Units	Awards	Awards	
Unrecognized compensation cost at January 1, 2017	\$ 1,094	\$ 625	\$ 1,402	\$3,121
Equity grants	—	1,001	2,264	3,265
Equity grant forfeitures	—	—	—	—
Equity compensation expense	(331)	(274)	(607)	(1,212)
Unrecognized Compensation Cost at June 30, 2017	\$ 763	\$ 1,352	\$ 3,059	\$5,174

At June 30, 2017, the weighted average amortization period remaining for all of our equity awards was 1.9 years.

Restricted Stock Units

RSUs 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 the then market price of our common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At June 30, 2017, there were 61,322 RSUs outstanding, and 10,509 had vested and were distributed. There were no RSUs granted during the six months ended June 30, 2017 or 2016. There were no RSUs forfeited during the six months ended June 30, 2017 or 2016. Unvested RSUs at June 30, 2017 will vest at varying times through 2019.

Restricted Stock Awards

During the six months ended June 30, 2017 and 2016, there were 81,909 and 53,589 shares of restricted stock as well as dividend equivalent rights granted under the Plan, respectively. There were no RSAs forfeited during the six months ended June 30, 2017. These shares generally vest over a three-year service period. Unvested restricted stock awards at June 30, 2017 will vest at varying times through 2019.

Performance-Based Restricted Stock Awards

During the six months ended June 30, 2017 and 2016, there were 135,578 and 72,040 performance shares as well as dividend equivalent rights granted under the Plan, respectively. The performance period of the grants run from January 1, 2017 through December 31, 2019, and January 1, 2016 through December 31, 2018, respectively. 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 \$3.1 million in compensation expense on a straight-line basis over the requisite service period associated with these market-based grants.

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, 2017

(In thousands)	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets	\$	-\$1,630	\$	-\$1,630

December 31, 2016

(In thousands)	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets	\$	-\$837	\$	-\$837

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)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 2017 and December 31, 2016 were classified as Level 2 of the fair value hierarchy.

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, 2017

(In thousands)	Carrying Value	Fair Value
Liabilities		
Term loan, excluding deferred financing costs	\$400,000	\$400,189
Senior fixed note - 7 year, excluding deferred financing costs	\$50,000	\$50,659
Senior fixed note - 10 year, excluding deferred financing costs	\$75,000	\$76,549

December 31, 2016

(In thousands)	Carrying Value	Fair Value
Liabilities		
Term loan and revolver balance, excluding deferred financing costs	\$445,000	\$445,309
Senior fixed note - 7 year, excluding deferred financing costs	\$—	\$—
Senior fixed note - 10 year, excluding deferred financing costs	\$—	\$—

The fair value of the Notes payable (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, 2017 and thereafter is as follows:

	June
(In thousands)	30,
	2017
2017 (six months)	\$257
2018	518
2019	407
2020	246
2021	90
2022	—
Thereafter	—
Total Future Lease Commitments	\$1,518

Rental expense was \$156 thousand and \$142 thousand for the three months ended June 30, 2017 and 2016, and \$313 thousand and \$277 thousand for the six months ended June 30, 2017 and 2016, 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.

NOTE 13 – SEGMENTS

During the three and six months ended June 30, 2017 and 2016, 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. The accounting policies of the reportable segments are the same as those described in Note 2 - Summary of Significant Accounting Policies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following tables present financial information by segment for the three months ended June 30, 2017 and 2016.

Three Months Ended June 30, 2017

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental income	\$ 28,327	\$ —	\$ —	\$28,327
Intercompany rental income	99	—	(99)	—
Restaurant revenues	—	4,826	—	4,826
Total revenues	28,426	4,826	(99)	33,153
Operating 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 operating 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	—	(61)	—	(61)
Net Income (Loss)	\$ 18,472	\$ (31)	\$ —	\$ 18,441

Three Months Ended June 30, 2016

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental income	\$ 26,192	\$ —	\$ —	\$26,192
Intercompany rental income	97	—	(97)	—
Restaurant revenues	—	4,701	—	4,701
Total revenues	26,289	4,701	(97)	30,893
Operating expenses:				
General and administrative	2,508	—	—	2,508
Depreciation and amortization	4,941	160	—	5,101
Restaurant expenses	—	4,690	(97)	4,593
Interest expense	3,858	—	—	3,858
Total operating expenses	11,307	4,850	(97)	16,060
Other income	18	—	—	18
Realized gain on sale, net	—	—	—	—
Income (loss) before income taxes	15,000	(149)	—	14,851
Income tax expense	—	(50)	—	(50)
Net Income (Loss)	\$ 15,000	\$ (199)	\$ —	\$ 14,801

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following tables present financial information by segment for the six months ended June 30, 2017 and 2016.

Six Months Ended June 30, 2017

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental income	\$ 56,091	\$ —	\$ —	\$56,091
Intercompany rental income	197	—	(197)	—
Restaurant revenues	—	9,766	—	9,766
Total revenues	56,288	9,766	(197)	65,857
Operating 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 operating 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	—	(106)	—	(106)
Net Income (Loss)	\$ 34,104	\$ (23)	\$ —	\$34,081

Six Months Ended June 30, 2016

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental income	\$ 52,385	\$ —	\$ —	\$52,385
Intercompany rental income	194	—	(194)	—
Restaurant revenues	—	9,560	—	9,560
Total revenues	52,579	9,560	(194)	61,945
Operating expenses:				
General and administrative	5,826	—	—	5,826
Depreciation and amortization	9,964	324	—	10,288
Restaurant expenses	—	9,485	(194)	9,291
Interest expense	8,039	—	—	8,039
Total operating expenses	23,829	9,809	(194)	33,444
Other income	78	—	—	78
Realized gain on sale, net	—	—	—	—
Income before income taxes	28,828	(249)	—	28,579
Benefit from income taxes	80,409	97	—	80,506
Net Income (Loss)	\$ 109,237	\$ (152)	\$ —	\$ 109,085

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents supplemental information by segment at June 30, 2017 and December 31, 2016.

June 30, 2017

(In thousands)	Real Estate Operations	Restaurant Operations	Total
Gross real estate investments	\$1,522,688	\$ 16,653	\$1,539,341
Accumulated depreciation	(583,694)	(6,219)	(589,913)
Total real estate investments, net	\$938,994	\$ 10,434	\$949,428
Cash and cash equivalents	\$79,826	\$ 1,502	\$81,328
Total assets	\$1,041,863	\$ 12,430	\$1,054,293
Notes payable, net of deferred financing costs	\$518,018	\$ —	\$518,018

December 31, 2016

(In thousands)	Real Estate Operations	Restaurant Operations	Total
Gross real estate investments	\$1,460,967	\$ 16,598	\$1,477,565
Accumulated depreciation	(577,392)	(5,915)	(583,307)
Total real estate investments, net	\$883,575	\$ 10,683	\$894,258
Cash and cash equivalents	\$24,412	\$ 2,231	\$26,643
Total assets	\$923,747	\$ 13,404	\$937,151
Notes payable, net of deferred financing costs	\$438,895	\$ —	\$438,895

NOTE 14 – SUBSEQUENT EVENTS

The Company reviewed its subsequent events and transactions that have occurred after June 30, 2017, the date of the consolidated balance sheet through August 4, 2017. On July 12, 2017, FCPT OP entered into two interest rate swaps pursuant to an International Swaps and Derivatives Association Master Agreement with J.P. Morgan Chase Bank, N.A. One swap has a fixed notional value of \$100.0 million with an effective date of November 9, 2018, and a maturity date of November 9, 2021, and where the fixed rate paid by FCPT OP is 1.960% and the variable rate received resets monthly to the one month LIBOR rate. The second swap has a fixed notional value of \$100.0 million with an effective date of November 9, 2020, and a maturity date of November 9, 2023, and where the fixed rate paid by FCPT OP is 2.302% and the variable rate received resets monthly to the one month LIBOR rate. These hedging agreements were entered into to mitigate the interest rate risk inherent in FCPT OP's variable rate debt and are not for trading purposes.

On July 26, 2017, the Company invested \$3.4 million in the acquisition of two properties located in Indiana. The properties are 100% occupied under triple-net leases with a weighted average lease term of 20.0 years. The Company funded the acquisition with cash on hand. The Company anticipates accounting for these transactions as asset acquisitions in accordance with U.S. GAAP. There were no contingent liabilities associated with these transactions at June 30, 2017.

There were no other reportable 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, 2016, 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.

Overview

Four Corners Property Trust, Inc. ("FCPT") is a publicly-traded Maryland 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 Darden and other tenants through triple-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. 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.

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 our 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 flow 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.

In the six months ended June 30, 2017, FCPT acquired 32 properties in fourteen states for a total investment of \$69.8 million, including transaction costs. These properties are 100% occupied under triple-net leases with a weighted average lease term of 18.6 years. At June 30, 2017, our wholly-owned lease portfolio had the following characteristics:

• 506 free-standing properties located in 44 states and representing an aggregate leasable area of 3.58 million square feet;

• 100% occupancy;

• A weighted average remaining lease term of 13.4 years (based on annual base rent);

• A weighted average annual rent escalator of 1.5% (based on annual base rent); and

• 90% investment grade tenancy (based on annual cash rent).

Results of Operations

The following discussion includes the results of our operations for the three and six months ended June 30, 2017 and 2016 as summarized in the table below:

(In thousands)	Three Months		Six Months Ended	
	Ended June 30, 2017	2016	June 30, 2017	2016
Revenues:				
Rental income	\$28,327	\$26,192	\$56,091	\$52,385
Restaurant revenues	4,826	4,701	9,766	9,560
Total revenues	33,153	30,893	65,857	61,945
Operating expenses:				
General and administrative	3,459	2,508	6,316	5,826
Depreciation and amortization	5,426	5,101	10,829	10,288
Restaurant expenses	4,583	4,593	9,251	9,291
Interest expense	4,508	3,858	8,604	8,039
Total expenses	17,976	16,060	35,000	33,444
Other income	34	18	39	78
Realized gain on sale, net	3,291	—	3,291	—
Income before provision for income taxes	18,502	14,851	34,187	28,579
Income tax (expense) benefit from income taxes	(61)	(50)	(106)	80,506
Net income	18,441	14,801	34,081	109,085
Net income attributable to noncontrolling interest	(128)	—	(245)	—
Net Income Attributable to Common Shareholders	\$18,313	\$14,801	\$33,836	\$109,085

During the three and six months ended June 30, 2017, we operated in two segments: real estate operations and restaurant operations. We recognize rental income on a straight-line basis to include the effect of base rent escalators. Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Revenue

Rental income revenue increased \$2.1 million during the three months ended June 30, 2017 compared to the same period in 2016. This increase was due to the acquisition of 91 properties less three properties sold during the year over year period. Additionally, during the three months ended June 30, 2017, the Company invested \$52.3 million in twenty-three restaurant properties located in eleven states.

Restaurant revenues increased by \$125 thousand during the three months ended June 30, 2017 compared to the same period in 2016. Average revenue per restaurant increased 2.7% to \$804 thousand during the three months ended June 30, 2017 compared to the same period in 2016.

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 increased \$1.0 million in the three months ended June 30, 2017 compared to the same period in 2016 primarily as a result of bringing the accounting function in-house, which included one time recruiting expenses, additional compensation expense, and costs to implement a new general ledger system. General and administrative expense also increased as a result of legal expenses related to our ATM equity issuance program.

Depreciation and amortization expense represents the depreciation on real estate investments, net which have estimated lives ranging from two to 55 years. Depreciation and amortization increased for the three months ended June 30, 2017 compared to the

three months ended June 30, 2016, by approximately \$0.3 million. Depreciation and amortization expense increased primarily due to the acquisition of depreciable assets in the last half of 2016 and the first half of 2017.

Total restaurant expenses remained virtually flat in the second quarter of 2017 compared to the second quarter of 2016.

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 \$650 thousand from the three months ended 2016 compared to the three months ended June 30, 2017 due to increased borrowings on our revolving credit facility during the second quarter of 2017 and interest expense on the \$125.0 million private placement notes issued on June 7, 2017.

Income Taxes

During the three months ended June 30, 2017 and 2016, our income tax expense was \$61 thousand and \$50 thousand, respectively. The income tax provision for the three months ended June 30, 2017 and 2016 is primarily due to income taxes incurred at the Kerrow Restaurant Operating Business, a taxable REIT subsidiary.

Six Months Ended June 30, 2017 compared to Six Months Ended June 30, 2016

Revenue

Rental income revenue increased \$3.7 million from the six months ended 2016 to the six months ended 2017. This increase was due to the acquisition of 91 properties less three properties sold during the year over year period.

Additionally, during the six months ended June 30, 2017, the Company invested \$69.8 million in thirty-two restaurant properties located in fourteen states.

Restaurant revenues increased by \$0.2 million in the six months ended June 30, 2017 compared to the six months ended June 30, 2016. Average revenue per restaurant increased 2.2% to \$1.63 million in the six months ended June 30, 2017 compared to the same period of 2016.

Expenses

General and administrative expense increased approximately \$0.5 million from the six months ended June 30, 2016 to the six months ended June 30, 2017 primarily as a result of bringing the accounting function in-house, which included one time recruiting expenses, additional compensation expense and costs to implement a new general ledger system. General & administrative expense also increased as a result of legal expenses related to our ATM equity issuance program. These increases were partially offset by a decrease in one-time expenses associated with establishing initial business operations that were incurred in the first quarter of 2016.

Depreciation and amortization expense represents the depreciation on real estate investments, net which have estimated lives ranging from two to 55 years. Depreciation and amortization increased for the six months ended June 30, 2017 compared to the six months ended June 30, 2016, by approximately \$0.5 million. Depreciation and amortization expense increased primarily due to the acquisition of depreciable assets in 2016 and the six months ended June 30, 2017, partially offset by the sale of two properties in the fourth quarter of 2016 and one property in the second quarter of 2017.

Total restaurant expenses remained flat in the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

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 \$565 thousand from the six months ended June 30, 2016 compared to the six months ended June 30, 2017 due to borrowings on our revolving credit facility during the first and second quarter of 2017 and interest expense on the \$125.0 million private placement notes issued on June 7, 2017. There were no borrowings on the revolving credit facility in the first six months of 2016.

Income Taxes

During the six months ended June 30, 2017 and 2016, our income tax expense was \$106 thousand and a benefit of \$80.5 million, respectively. The income tax provision for the six months ended June 30, 2017 is primarily due to income taxes incurred at the Kerrow Restaurant Operating Business, a taxable REIT subsidiary. The income tax benefit recognized during the six months ended June 30, 2016 was primarily the result of the reversal of deferred tax liabilities associated with activities no longer expected

to be subject to federal taxation as a result of our intention to be taxed as a REIT commencing with the year ending December 31, 2016.

Critical Accounting Policies

The preparation of FCPT's consolidated financial statements in conformance with accounting principles generally accepted in the United States of America 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, 2016 in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies." 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, 2017, we had \$81.3 million of cash and cash equivalents and \$350.0 million of borrowing capacity under our Credit Facility, which expires on November 9, 2019, subject to our ability to extend the term for two additional six-month periods to November 9, 2020. The revolving credit facility provides for a letter of credit sub-limit of \$45 million. See Note 6 - Notes Payable included in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information. As of June 30, 2017, 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, 2020.

We have a shelf registration statement on file with the SEC under which we may issue secured or unsecured indebtedness and equity financing through the instruments and on the terms most attractive to us at such time. During the six months ended June 30, 2017, we sold 1,216,992 shares under the ATM program for net proceeds of approximately \$28.9 million (after issuance costs). The net proceeds were employed to fund acquisitions, and for general corporate purposes. At June 30, 2017, \$120.0 million in gross proceeds capacity remained available under the ATM Program.

On June 7, 2017, FCPT OP issued \$125.0 million of senior, unsecured, fixed rate notes (the "Notes") guaranteed by the Company. The Notes consisted of \$50.0 million of notes with a seven-year term due June 2024 and priced at a fixed interest rate of 4.68%, and \$75.0 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 intends to use the remaining proceeds to fund future acquisitions and for general corporate purpose. 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 our operating partnership 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 triple-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, 2016, as filed with the SEC.

Off-Balance Sheet Arrangements

At June 30, 2017, we had no off-balance sheet arrangements.

Supplemental Financial Measures

The following table 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 months ended June 30, 2017 and 2016.

(In thousands, except share data)	Three Months Ended	
	June 30,	
	2017	2016
Net income	\$18,441	\$ 14,801
Depreciation and amortization	5,426	5,101
Realized gain on sale, net	(3,291)	—
FFO (as defined by NAREIT)	\$20,576	\$ 19,902
Non-cash stock-based compensation	704	429
Non-cash amortization of deferred financing costs	415	398
Other non-cash interest expense	11	55
Straight-line rent	(2,422)	(2,595)
Adjusted funds from operations (AFFO)	\$19,284	\$ 18,189
Fully diluted shares outstanding ⁽¹⁾	60,870,695	59,844,059
FFO per diluted share	\$0.34	\$ 0.33
AFFO per diluted share	\$0.32	\$ 0.30

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

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The following table 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 months ended June 30, 2017 and 2016.

(In thousands, except share data)	Six Months Ended	
	June 30,	
	2017	2016
Net income	\$34,081	\$109,085
Depreciation and amortization	10,829	10,288
Deferred tax benefit from REIT election	—	(80,409)
Realized gain on sale, net	(3,291)	—
FFO (as defined by NAREIT)	\$41,619	\$38,964
Non-cash stock-based compensation	1,198	742
Non-cash amortization of deferred financing costs	813	796
Other non-cash interest expense	63	435
Straight-line rent	(4,795)	(5,191)
Adjusted funds from operations (AFFO)	\$38,898	\$35,746
Fully diluted shares outstanding ⁽¹⁾	60,649,126	59,271,807
FFO per diluted share	\$0.69	\$0.66
AFFO per diluted share	\$0.64	\$0.60

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

Non-U.S. GAAP Definitions

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

Funds from Operations (“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 U.S. 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 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-U.S. 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 U.S. GAAP measure, including net income.

Adjusted Funds from Operations (“AFFO”) 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 the acquisition of real estate investments qualifying as businesses
2. Non-cash stock-based compensation expense
3. Amortization of deferred financing costs
4. Other non-cash interest expense
5. Non-real estate depreciation
6. Merger, restructuring and other related costs
7. Impairment charges
8. Amortization of capitalized leasing costs
9. Straight-line rent revenue adjustment
10. Amortization of above and below market leases
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, 2016, 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, 2016.

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

In the second quarter of 2017, the Company implemented a new general ledger system. In connection with this implementation, the Company has updated its control activities related to recording financial transactions. There have been no other 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 11 of our Annual Report on Form 10-K for the year ended December 31, 2016 and 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.

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: August 8, 2017 By: /s/ William H. Lenehan
William H. Lenehan
President and Chief Executive Officer
(Principal Executive Officer)

Dated: August 8, 2017 By: /s/ Gerald R. Morgan
Gerald R. Morgan
Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
10.1	Note Purchase Agreement, dated as of April 19, 2017, by and among Four Corners Property Trust, Inc., Four Corners Operating Partnership, LP and the other parties named therein as Purchasers (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 20, 2017).
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