Four Corners Property Trust, Inc.
Form 10-Q
April 25, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-37538
Four Corners Property Trust, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨Yes x No
Number of shares of common stock outstanding as of April 24, 2019: 68,402,447

FOUR CORNERS PROPERTY TRUST, INC.
FORM 10 - Q
THREE MONTHS ENDED MARCH 31, 2019
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

| | March 31, 2019 (Unaudited) | December 31, 2018 |
|---|---|---|
| ASSETS | | |
| Real estate investments: | | |
| Land | $580,580 | $569,057 |
| Buildings, equipment and improvements | 1,239,033 | 1,236,224 |
| Total real estate investments | 1,819,613 | 1,805,281 |
| Less: Accumulated depreciation | (618,258) | (614,584) |
| Total real estate investments, net | 1,201,355 | 1,190,697 |
| Intangible lease assets, net | 22,464 | 18,998 |
| Total real estate investments and intangible lease assets, net | 1,223,819 | 1,209,695 |
| Cash and cash equivalents | 81,013 | 92,041 |
| Straight-line rent adjustment | 32,501 | 30,141 |
| Derivative assets | 2,999 | 5,982 |
| Other assets | 9,225 | 5,239 |
| Total Assets | $1,349,557 | $1,343,098 |
| | | |
| LIABILITIES AND EQUITY | | |
| Liabilities: | | |
| Long-term debt, net of deferred financing costs | $616,404 | $615,892 |
| Dividends payable | 19,626 | 19,580 |
| Rent received in advance | 8,658 | 1,609 |
| Other liabilities | 15,651 | 7,053 |
| Total liabilities | 660,339 | 644,134 |
| | | |
| 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, 68,368,264 and 68,204,045 shares issued and outstanding, respectively | 7 | 7 |
| Additional paid-in capital | 637,117 | 639,116 |
| Retained earnings | 43,895 | 46,018 |
| Accumulated other comprehensive income | 2,341 | 5,956 |
| Noncontrolling interest | 5,858 | 7,867 |
| Total equity | 689,218 | 698,964 |
| Total Liabilities and Equity | $1,349,557 | $1,343,098 |

The accompanying notes are an integral part of this financial statement.
1

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

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| Revenues: | | |
| Rental revenue | $34,208 | $29,589 |
| Restaurant revenue | 5,393 | 5,214 |
| Total revenues | 39,601 | 34,803 |
| Operating expenses: | | |
| General and administrative | 3,946 | 3,583 |
| Depreciation and amortization | 6,361 | 5,345 |
| Property expenses | 308 | 86 |
| Restaurant expenses | 4,983 | 4,870 |
| Total operating expenses | 15,598 | 13,884 |
| Net operating income | 24,003 | 20,919 |
| Interest expense | (6,747) | (4,855) |
| Other income | 413 | 358 |
| Income tax expense | (68) | (58) |
| Net income | 17,601 | 16,364 |
| Net income attributable to noncontrolling interest | (98) | (109) |
| Net Income Available to Common Shareholders | $17,503 | $16,255 |
| | | |
| Basic net income per share: | $0.26 | $0.27 |
| Diluted net income per share: | $0.26 | $0.26 |
| Weighted average number of common shares outstanding: | | |
| Basic | 68,202,950 | 61,291,642 |
| Diluted | 68,453,720 | 61,413,978 |
| Dividends declared per common share | $0.2875 | $0.2750 |

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 March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Net income | $17,601 | $16,364 |
| Other comprehensive (loss) income: | | |
| Effective portion of change in fair value of derivative instruments | (3,027) | 5,384 |
| Reclassification adjustment of derivative instruments included in net income | (609) | (240) |
| Other comprehensive (loss) income | (3,636) | 5,144 |
| Comprehensive income | 13,965 | 21,508 |
| Less: comprehensive income attributable to noncontrolling interest | | |
| Net income attributable to noncontrolling interest | 98 | 109 |
| Other comprehensive income attributable to noncontrolling interest | (21) | 34 |
| Comprehensive income attributable to noncontrolling interest | 77 | 143 |
| Comprehensive Income Attributable to Common Shareholders | $13,888 | $21,365 |

The accompanying notes are an integral part of this financial statement.
3

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

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Noncontrolling Interest | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Par Value | | | | | |
| Balance at December 31, 2018 | 68,204,045 | $ 7 | $639,116 | $46,018 | $ 5,956 | $ 7,867 | $698,964 |
| Net income | — | — | — | 17,503 | — | 98 | 17,601 |
| Other comprehensive income | — | — | — | — | (3,615) | (21) | (3,636) |
| Redemption of OP units | — | — | (1,180) | — | — | (1,985) | (3,165) |
| ATM proceeds, net of issuance costs | 25,455 | — | 660 | — | — | — | 660 |
| Dividends and distributions to equity holders | — | — | — | (19,626) | — | (101) | (19,727) |
| Stock-based compensation, net | 138,764 | — | (1,479) | — | — | — | (1,479) |
| Balance at March 31, 2019 | 68,368,264 | $ 7 | $637,117 | $43,895 | $ 2,341 | $ 5,858 | $689,218 |

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Noncontrolling Interest | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Par Value | | | | | |
| Balance at December 31, 2017 | 61,329,489 | $ 6 | $473,685 | $36,318 | $ 4,478 | $ 7,781 | $522,268 |
| ASU 2017-12 cumulative effect adjustment | — | — | — | (467) | 467 | — | — |
| Net income | — | — | — | 16,255 | — | 109 | 16,364 |
| Other comprehensive income | — | — | — | — | 5,110 | 34 | 5,144 |
| Dividends and distributions to equity holders | — | — | — | (16,855) | — | (112) | (16,967) |
| Stock-based compensation, net | 61,698 | — | 1,184 | — | — | — | 1,184 |
| Balance at March 31, 2018 | 61,391,187 | $ 6 | $474,869 | $35,251 | $ 10,055 | $ 7,812 | $527,993 |

The accompanying notes are an integral part of this financial statement.
4

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

| | Three Months Ended March 31, 2019 | 2018 |
|---|---|---|
| Cash flows - operating activities | | |
| Net income | $17,601 | $16,364 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 6,361 | 5,345 |
| Gain on exchange of non-financial assets | — | (228) |
| Amortization of financing costs | 513 | 455 |
| Stock-based compensation expense | 1,214 | 1,184 |
| Changes in assets and liabilities: | | |
| Derivative assets and liabilities | (4) | (5) |
| Straight-line rent adjustment | (2,359) | (2,283) |
| Rent received in advance | 7,049 | 167 |
| Other assets and liabilities | 2,534 | 751 |
| Net cash provided by operating activities | 32,909 | 21,750 |
| Cash flows - investing activities | | |
| Purchases of real estate investments | (20,345) | (21,050) |
| Advance deposits on acquisition of operating real estate | 86 | (50) |
| Cash used in investing activities | (20,259) | (21,100) |
| Cash flows - financing activities | | |
| Net proceeds from ATM equity issuance | 660 | — |
| Payment of dividends to shareholders | (19,580) | (16,843) |
| Distributions to non-controlling interests | (101) | (112) |
| Redemption of non-controlling interests | (3,165) | — |
| Employee shares withheld for taxes | (2,693) | — |
| Net cash used in financing activities | (24,879) | (16,955) |
| Net decrease in cash and cash equivalents, including restricted cash | (12,229) | (16,305) |
| Cash and cash equivalents, including restricted cash, at beginning of period | 93,242 | 69,371 |
| Cash and cash equivalents, including restricted cash, at end of period | $81,013 | $53,066 |
| Supplemental disclosures: | | |
| Interest paid | $3,875 | $2,872 |
| Income taxes paid | 197 | 152 |
| Operating lease payments received (lessor) | 31,663 | — |
| Operating lease payments remitted (lessee) | 104 | — |
| Non-cash investing and financing activities: | | |
| Dividends declared but not paid | $19,626 | $16,855 |
| Change in fair value of derivative instruments | (3,632) | 5,149 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

## NOTE 1 – ORGANIZATION

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

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

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 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 (the "Consolidated Financial Statements") include the accounts of Four Corners Property Trust, Inc. and its consolidated subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

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

### 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 revenue 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. Actual results may differ from the estimates and assumptions used in preparing the accompanying Consolidated Financial Statements, and such differences could be material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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 Consolidated Balance Sheets as a component of buildings, equipment, and improvements, net 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. Equipment is 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 realized gain on sale, net, in our accompanying Consolidated Statements of Income (“Income Statements”).

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

Acquisition of Real Estate

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

The Company allocates the purchase price (including acquisition and closing costs) of real estate acquisitions to land, building, and improvements based on their relative fair values. The determination of the building fair value is on an ‘as-if-vacant’ basis. Value is allocated to acquired lease intangibles (if any) based on the costs avoided and revenue recognized by acquiring the property subject to lease and avoiding an otherwise ‘dark period’. In making estimates of fair values for this purpose, the Company uses a third-party specialist that obtains various information about each property, as well as the pre-acquisition due diligence of the Company and prior leasing activities at the site.

Lease Intangibles

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

In-place lease intangibles are amortized on a straight-line basis over the remaining initial term of the related lease and included in depreciation and amortization expense. Above-market lease intangibles are amortized over the remaining initial terms of the respective leases as a decrease in rental revenue. Below-market lease intangibles are generally amortized as an increase to rental revenue over the remaining initial term of the respective leases, but may be amortized over the renewal periods if the Company believes it is likely the tenant will exercise the renewal option. Should a lease terminate early, the unamortized portion of any

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

related lease intangible is immediately recognized as an impairment loss included in depreciation and amortization expense. To date, the Company has not had significant early terminations.

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.

Exit or disposal activities include the cost of disposing of the assets and are generally expensed as incurred. Upon disposal of the assets, any gain or loss is recorded in the same caption within our Income Statements as the original impairment. Provisions for impairment are included in depreciation and amortization expense. We did not record impairment expense during the three months ended March 31, 2019 or 2018.

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. There was no real estate held for sale at March 31, 2019 or December 31, 2018.

Cash, Cash Equivalents, and Restricted Cash

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents can consist of cash and money market accounts. Restricted cash consists of 1031 tax deferred real estate exchange proceeds and is included in Other assets on our Consolidated Balance Sheets.

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

| (In thousands) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash and cash equivalents | $81,013 | $ 92,041 |
| Restricted cash (included in Other assets) | — | 1,201 |
| Total Cash, Cash Equivalents, and Restricted Cash | $81,013 | $ 93,242 |

Long-term Debt

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

Deferred Financing Costs

8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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

See Note 7 - Long-term Debt, Net of Deferred Financing Costs for additional information.

Derivative Instruments and Hedging Activities

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

To the extent our derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the cash flow hedge accounting criteria in accordance with United States generally accepted accounting principles ("U.S. GAAP"), changes in the derivatives' fair value are not included in current earnings but are included in accumulated other comprehensive income, 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 8 - Derivative Financial Instruments for additional information.

Other Assets and Liabilities

Other assets primarily consist of right of use operating lease assets, pre-acquisition costs, prepaid assets, food and beverage inventories for use by our Kerrow operating subsidiary, escrow deposits, and accounts receivable. Other liabilities primarily consist of accrued compensation, accrued interest, accrued operating expenses, derivative liabilities, and operating lease liabilities.

See Note 6 - Supplemental Detail for Certain Components of Consolidated Balance Sheets for additional information.

Leases

Effective January 1, 2019, the Company adopted ASU 2016-02, Leases ("ASC 842"), using the effective date method. Consolidated Financial Statements for reporting periods beginning on or after January 1, 2019, are presented under the new guidance, while prior periods amounts are not adjusted and continue to be reported in accordance with previous guidance. We elected the package of practical expedients which permits us to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) any initial direct costs for any existing leases as of the effective date. We did not elect the hindsight practical expedient which permits entities to use hindsight in determining the lease term and assessing impairment. The adoption of the lease standard did not change our previously reported Consolidated Financial Statements and did not result in a cumulative adjustment to equity.

All significant lease arrangements are generally recognized at lease commencement. For leases where the Company is the lessee upon adoption of ASC 842, operating lease right-of-use ("ROU") assets and lease liabilities are recognized at commencement based on the present value of lease payments over the lease term. ROU assets represent our right to use an underlying asset during the reasonably certain lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

For leases where Company is the lessor, we determine the classification upon commencement. At March 31, 2019, all leases are classified as operating leases. These operating leases may contain both lease and non-lease components. The Company accounts for lease and non-lease components as a single component. Prior to adoption of ASC 842, lease origination fees were deferred and amortized over the related lease term as an adjustment to depreciation expense. Subsequent to the adoption of ASC 842 on January 1, 2019, the Company expenses certain initial direct costs that are not incremental in obtaining a lease.

See Note 5 - Leases for additional information.

Revenue Recognition

Rental Revenue

For those net leases that provide for periodic and determinable increases in base rent, base rental revenue is recognized on a straight-line basis over the applicable lease term when collectability is probable. Recognizing rental revenue on a straight-line basis generally results in recognized revenues during the first half of a lease term exceeding the cash amounts contractually due from our tenants, creating a deferred rent receivable.

We assess the collectability of our lease receivables, including deferred rents receivable, on several factors, including payment history, the financial strength of the tenant and any guarantors, historical operations and operating trends of the property, and current economic conditions. If our evaluation of these factors indicates it is not probable that we will be to recover substantially all of the receivable, we derecognize the deferred rent receivable asset and record as a reduction in rental revenue.

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. Prior to the adoption of ASC 842, lessor costs reimbursed by the lessee were presented on a net basis in our Consolidated Financial Statements. Subsequent to the adoption of ASC 842 on January 1, 2019, costs paid by the lessor and reimbursed by the lessees will be included in variable lease payments and presented on a gross basis within rental revenue. Sales taxes collected from lessees and remitted to governmental authorities are presented on a net basis within rental revenue.

Restaurant Revenue

Restaurant revenue represents food, beverage, and other products sold and is presented net of the following discounts: coupons, employee meals, complimentary meals and gift cards. Revenue from restaurant sales, whether received in cash or by credit card, is recognized when food and beverage products are sold. At both March 31, 2019, and December 31, 2018, credit card receivables, included in other assets, totaled $82 thousand. 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 Income Statements.

Restaurant Expenses

Restaurant expenses include restaurant labor, general and administrative expenses, rent expense, 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 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 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, 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 Comprehensive Income Statement. A corresponding liability for accrued interest is included as a component of other liabilities on our Consolidated Balance Sheets. Penalties, when incurred, are recognized in general and administrative expenses.

We estimate certain components of our provision for income taxes. These estimates include, among other items, depreciation and amortization expense allowable for tax purposes, allowable tax credits for items such as taxes paid on reported employee tip income, effective rates for state and local income taxes and the valuation and tax deductibility of certain other items. We adjust our annual effective income tax rate as additional information on outcomes or events becomes available.

We base our estimates on the best available information at the time that we prepare the provision. We will generally file our annual income tax returns several months after our year end. Income tax returns are subject to audit by state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. The major jurisdictions in which we will file income tax returns are the U.S. federal jurisdiction and all states in the U.S. in which we own properties that have an income tax.

U.S. GAAP requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50 percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. We include within our current tax provision the balance of unrecognized tax benefits related to tax positions for which it is reasonably possible that the total amounts could change during the next 12 months based on the outcome of examinations.

See Note 9 - Income Taxes for additional information.

Earnings Per Share

Basic earnings per share ("EPS") are computed by dividing net income allocated to common shareholders by the weighted-average number of common shares outstanding for the reporting period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. No effect is shown for any securities that are anti-dilutive. Net income allocated to common shareholders represents net income less income allocated to participating securities and non-controlling interests. None of the Company's equity awards are participating securities.

See Note 10 - 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"), dividend equivalents ("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.

See Note 11 - Stock-Based Compensation for additional information.

11

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Fair Value of Financial Instruments

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

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

Application of New Accounting Standards

We consider the applicability and impact of all ASUs issued by the FASB. ASUs not yet adopted that are not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated result of operations, financial position and cash flows.

NOTE 3 – CONCENTRATION OF CREDIT RISK

Our tenant base and the restaurant brands operating our properties are highly concentrated. With respect to our tenant base, Darden leases represent approximately 76% of the scheduled base rents from the properties we own. As our revenues predominately consist of rental payments, we are dependent on Darden for a significant portion of our leasing revenues. The audited and unaudited financial statements for Darden are included in its filings with the SEC, which can be found on the SEC’s internet website at www.sec.gov. Reference to Darden’s filings with the SEC is solely for the information of investors. We do not intend this website to be an active link or to otherwise incorporate the information contained on such website (including Darden’s filings with the SEC) into this report or our other filings with the SEC.

We also are subject to concentration risk in terms of the restaurant brands that operate our properties. As of March 31, 2019, FCPT had 300 Olive Garden branded locations in our portfolio, which comprise approximately 48% of our leased properties and approximately 57% of the revenues received under leases. Our properties, including the Kerrow Restaurant Operating Business, are located in 45 states, with concentrations of 10% or greater of total rental revenue in two states: Texas (12.4%) and Florida (11.3%).

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 March 31, 2019, our exposure to risk related to our derivative instruments totaled $2.4 million and the counterparty to such instruments are investment grade financial institutions. Our credit risk exposure with regard to our cash and the $250.0 million available capacity under the revolver portion of our credit facility is spread among a diversified group of investment grade financial institutions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

NOTE 4 – REAL ESTATE INVESMENTS, NET AND INTANGIBLE ASSETS AND LIABILITIES, NET

Real Estate Investments, Net

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

| (In thousands) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Land | $580,580 | $569,057 |
| Buildings and improvements | 1,104,428 | 1,099,591 |
| Equipment | 134,605 | 136,633 |
| Total gross real estate investments | 1,819,613 | 1,805,281 |
| Less: accumulated depreciation | (618,258) | (614,584) |
| Total real estate investments, net | 1,201,355 | 1,190,697 |
| Intangible lease assets, net | 22,464 | 18,998 |
| Total Real Estate Investments and Intangible Lease Assets, Net | $1,223,819 | $1,209,695 |

During the three months ended March 31, 2019, the Company invested $20.3 million, including transaction costs, in 11 restaurant properties located in four states, and allocated the investment as follows: $11.5 million to land, $4.8 million to buildings and improvements, and $4.0 million to intangible assets principally related to the value of the in-place leases acquired. There was no contingent consideration associated with these acquisitions. These properties are 100% occupied under net leases, with a weighted average remaining lease term of 10.8 years as of March 31, 2019. The Company did not dispose of any properties during the quarter.

During the three months ended March 31, 2018, the Company invested $21.0 million, including transaction costs, in 12 restaurant properties located in four states, and allocated the investment as follows: $13.5 million to land, $5.4 million to buildings and improvements, and $2.1 million to intangible assets related to leases. These properties were 100% occupied under net leases, with a weighted average remaining lease term of 9.3 years at March 31, 2018. The Company did not dispose of any properties during the quarter.

Intangible Lease Assets and Liabilities, Net

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

| (In thousands) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Acquired in-place lease intangibles | $23,030 | $19,079 |
| Above-market leases | 1,495 | 1,318 |
| Total | 24,525 | 20,397 |
| Less: Accumulated amortization | (2,061) | (1,399) |
| Intangible Lease Assets, Net | $22,464 | $18,998 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

| (In thousands) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Below-market leases | $774 | $ 610 |
| Less: Accumulated amortization | (58 ) | (33 ) |
| Intangible Lease Liabilities, Net | $716 | $ 577 |

The value of acquired in-place leases amortized and included in depreciation and amortization expense was $626 thousand and $122 thousand for the three months ended March 31, 2019 and 2018. The value of above-market and below-market leases amortized as an adjustment to revenue was $12 thousand and $15 thousand for the three months ended March 31, 2019 and 2018.

At March 31, 2019, the total weighted average amortization period remaining for our intangible lease assets and liabilities was 12.3 years, and the individual weighted average amortization period remaining for acquired in-place lease intangibles, above-market leases, and below-market leases was 12.2 years, 12.9 years, and 8.9 years, respectively.

Amortization of Above-Market and Below-Market Lease Intangibles

The following table presents the estimated impact during the next five years and thereafter related to the amortization of in-place lease intangibles, and above-market and below-market lease intangibles for properties held for investment at March 31, 2019.

| (In thousands) | March 31, 2019 |
|---|---|
| 2019 (nine months) | $2,017 |
| 2020 | 2,495 |
| 2021 | 2,275 |
| 2022 | 2,127 |
| 2023 | 1,799 |
| 2024 | 1,659 |
| Thereafter | 9,376 |
| Total Future Amortization | $21,748 |

NOTE 5 – LEASES

Operating Leases as Lessee

Upon adoption of ASC 842, as a lessee we recorded ROU assets and lease liabilities for the three ground leases at our Kerrow Restaurant Operating Business. These ground leases have extension options, which we believe will be exercised and are included in the calculation of our lease liabilities and right-of-use assets. In calculating the lease obligations under the ground leases,we used discount rates estimated to be equal to what the Company would have to pay to borrow on a collateralized basis over a similar term, for an amount equal to the lease payments, in a similar economic environment.

Impact of Adoption

The table below presents the impact of adoption of the lease standard on our Consolidated Balance Sheet as of January 1, 2019.

| (In thousands) | December 31, 2018 | Upon Adoption (January 1, 2019) | As Adjusted |
|---|---|---|---|
| Operating lease right-of-use asset (included in other assets) | $ — | $ 5,723 | $ 5,723 |
| Operating lease liability (included in other liabilities) | — | 6,425 | 6,425 |
| Deferred rent payable | 702 | (702 ) | — |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Operating Lease Liability

As of March 31, 2019, maturities of operating lease liabilities were as follows:

| (In thousands) | March 31, 2019 |
|---|---|
| 2019 (nine months) | $297 |
| 2020 | 397 |
| 2021 | 418 |
| 2022 | 427 |
| 2023 | 427 |
| Thereafter | 8,407 |
| Total Payments | 10,373 |
| Less: Interest | (3,975 ) |
| Operating Lease Liability | $6,398 |

The weighted-average discount rate for operating leases at March 31, 2019 was 4.52%. The weighted-average remaining lease term was 21.9 years.

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting standard, the following table presents future minimum lease commitments under non-cancelable operating leases. The table does not reflect available operating lease extensions.

| (In thousands) | December 31, 2018 |
|---|---|
| 2019 | $ 550 |
| 2020 | 400 |
| 2021 | 103 |
| 2022 and thereafter | — |
| Total Future Lease Commitments | $ 1,053 |

Rental expense was $168 thousand and $175 thousand for the three months ended March 31, 2019 and 2018, respectively.

Operating Leases as Lessor

Our leases consist primarily of single-tenant, net leases, in which the tenants are responsible for making payments to third parties for operating expenses such as property taxes, insurance, and other costs associated with the properties the leased to them. In leases where costs are paid by the Company and reimbursed by lessees, such payments are considered variable lease payments and recognized in rental revenue. The following table shows the components of rental revenue.

| (In thousands) | March 31, 2019 |
|---|---|
| Lease revenue - operating leases | $34,010 |
| Variable lease revenue (tenant reimbursements) | 198 |
| Total Rental Revenue | $34,208 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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

| (In thousands) | March 31, 2019 |
|---|---|
| 2019 (nine months) | $95,546 |
| 2020 | 128,820 |
| 2021 | 130,243 |
| 2022 | 131,802 |
| 2023 | 133,139 |
| 2024 | 135,051 |
| Thereafter | 927,788 |
| Total Future Minimum Lease Payments | $1,682,389 |

NOTE 6 – SUPPLEMENTAL DETAIL FOR CERTAIN COMPONENTS OF CONSOLIDATED BALANCE SHEETS
Other Assets
The components of other assets were as follows:

| (In thousands) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Operating lease right-of-use asset | $5,685 | $ — |
| Prepaid acquisition costs and deposits | 1,363 | 1,802 |
| Prepaid assets | 763 | 815 |
| Accounts receivable | 257 | 782 |
| Food and beverage inventories | 164 | 183 |
| Escrow deposits | — | 1,201 |
| Other | 993 | 456 |
| Total Other Assets | $9,225 | $ 5,239 |

Other Liabilities
The components of other liabilities were as follows:

| (In thousands) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Operating lease liability | $6,398 | $ — |
| Accrued interest expense | 4,313 | 1,586 |
| Accounts payable | 1,330 | 986 |
| Accrued compensation | 902 | 1,714 |
| Intangible lease liabilities, net | 716 | 577 |
| Derivative liabilities | 649 | — |
| Accrued operating expenses | 244 | 486 |
| Other | 1,099 | 1,704 |
| Total Other Liabilities | $15,651 | $ 7,053 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

NOTE 7 – LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS

At March 31, 2019, and December 31, 2018, our long-term debt consisted of (1) $400 million of non-amortizing term loans and (2) $225 million of senior, unsecured, fixed rate notes.

At March 31, 2019, and December 31, 2018, net unamortized deferred financing costs were approximately $8.6 million and $9.1 million, respectively. During the three months ended March 31, 2019 and 2018, amortization of deferred financing costs was $513 thousand and $455 thousand, respectively. The weighted average interest rate on the term loans before consideration of the interest rate hedge described below was 3.79% and 3.68% at March 31, 2019 and December 31, 2018, respectively.

At both March 31, 2019, and December 31, 2018, there was no balance outstanding under the $250 million revolving credit facility nor any outstanding letters of credit. The Company was in compliance with all debt covenants at March 31, 2019.

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in our receipt or payment of future cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash payments principally related to our borrowings.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The change in the fair value of derivatives designated and that qualify as cash flow hedges is recorded on our consolidated balance sheet in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2019, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

As of March 31, 2019, $300 million of our variable-rate debt is hedged by swaps with notional values totaling $300 million.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. We estimate that over the next twelve months an additional $2.1 million will be reclassified to earnings as a decrease to interest expense.

Non-designated Hedges

We do not use derivatives for trading or speculative purposes. During the three months ended March 31, 2019 and 2018, we did not have any derivatives that were not designated as cash flow hedges for accounting purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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 March 31, 2019 and December 31, 2018.

| | Derivative Assets | | | Derivative Liabilities | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Balance Sheet Location | Fair Value at March 31, 2019 | December 31, 2018 | Balance Sheet Location | Fair Value at March 31, 2019 | December 31, 2018 |
| Derivatives designated as hedging instruments: | | | | | | |
| Interest rate swaps | Derivative assets | $ 2,999 | $ 5,982 | Derivative liabilities | $ 649 | $ — |
| Total | | $ 2,999 | $ 5,982 | | $ 649 | $ — |

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 March 31, 2019 and 2018.

| (Dollars in thousands) | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Total Amount of Interest expense Presented in the Consolidated Statements of Income |
|---|---|---|---|---|
| Three months ended March 31, 2019 | $ (3,027 ) | Interest expense | $ 609 | $ (6,747 ) |
| Three months ended March 31, 2018 | $ 5,384 | Interest expense | $ 240 | $ (4,855 ) |

Tabular Disclosure Offsetting Derivatives
The table below presents a gross presentation, the effects of offsetting, and a net presentation of our derivatives at March 31, 2019 and December 31, 2018. 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

| | | | | Gross Amounts Not Offset in the Consolidated Balance Sheet | | |
|---|---|---|---|---|---|---|
| (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 | Financial Instruments | Cash Collateral Received | Net Amount |
| March 31, 2019 | $ 2,999 | $ — | $ 2,999 | $ (649 ) | $ — | $ 2,350 |
| December 31, 2018 | 5,982 | — | 5,982 | — | — | 5,982 |

Offsetting of Derivative Liabilities

| | Gross Amounts of | Gross Amounts | Net Amounts of Liabilities | Gross Amounts Not Offset in the |
|---|---|---|---|---|

| (In thousands) | Recognized Liabilities | Offset in the Consolidated Balance Sheet | Presented in the Consolidated Balance Sheet | Consolidated Balance Sheet Financial Instruments | Cash Collateral Posted | Net Amount |
|---|---|---|---|---|---|---|
| March 31, 2019 | $ 649 | $ — | $ 649 | $ (649 ) | $ — | $ — |
| December 31, 2018 | — | — | — | — | — | — |

18

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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 March 31, 2019 and December 31, 2018, the fair value of derivatives in a net asset position related to these agreements was approximately $2.4 million and $6.0 million, respectively. As of March 31, 2019, we have not posted any collateral related to these agreements. If we or our counterparty had breached any of these provisions at March 31, 2019, we would have been entitled to the termination value of $2.4 million.

NOTE 9 – 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 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 three months ended March 31, 2019 related to the REIT.

Income tax expense consists of federal, state, and local income taxes incurred by FCPT’s TRS, and state and local income taxes incurred by FCPT on its lease portfolio. During the three months ended March 31, 2019 and 2018, we recorded income tax expense of $68 thousand and $58 thousand, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes, as well as operating loss and tax credit carryforwards. The Company evaluates the realizability of its deferred tax assets and recognizes a valuation allowance if, based on the available evidence, both positive and negative, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers, among other matters, estimates of expected future taxable income, nature of current and cumulative losses, existing and projected book/tax differences, tax planning strategies available, and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods. Based on an assessment of all factors, including historical losses of the Kerrow Restaurants Operating Business, it was determined that full valuation allowances were required on the net deferred tax assets as of March 31, 2019. Changes in estimates of deferred tax asset realizability are included in "Income tax expense" in the Consolidated Statements of Income.

NOTE 10 – EQUITY

Preferred Stock

At March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018.

Common Stock

At March 31, 2019 and December 31, 2018, the Company was authorized to issue 500,000,000 shares, $0.0001 par value per share of common stock.

On March 5, 2019, we declared a dividend of $0.2875 per share, which was paid in April 2019 to common stockholders of record as of March 29, 2019.

At March 31, 2019, there were 68,368,264 shares of the Company's common stock issued and outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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. As of December 31, 2018 there was approximately $50.0 million left on the ATM offerings. On March 22, 2019, the Company amended its ATM program and increased the maximum sales under ATM offerings to $210.0 million, thus adding an additional $160.0 million to the maximum sales under ATM offerings.

During the three months ended March 31, 2019, we sold 25,455 shares under the ATM program at a weighted-average selling price of $29.53 per share, for net proceeds of approximately $660 thousand. At March 31, 2019, there was $209.2 million available for issuance under the ATM program.

Noncontrolling Interest

At March 31, 2019, there were 295,358 FCPT Operating Partnership Units ("OP units") outstanding held by third parties. During the three months ended March 31, 2019, FCPT OP did not issue any OP units for consideration in real estate transactions. Generally, OP units participate in net income allocations and distributions and entitle their holder the right, subject to the terms set forth in the partnership agreement, to require FCPT OP to redeem all or a portion of the OP units held by such limited partner. At FCPT OP's option, it may satisfy this redemption with cash or by exchanging non-registered shares of FCPT common stock on a one-for-one basis. Prior to the redemption of OP units, the limited partners participate in net income allocations and distributions in a manner equivalent to the common stock holders. The redemption value of outstanding non-controlling interest OP units was $8.6 million and $10.8 million as of March 31, 2019 and December 31, 2018, respectively.

At March 31, 2019, FCPT is the owner of approximately 99.57% of FCPT's OP units. The remaining 0.43%, or 295,358 of FCPT's OP units are held by unaffiliated limited partners. During the three months ended March 31, 2019, FCPT OP distributed $101 thousand to its limited partners and settled a redemption of 113,962 OP units at a weighted average price per unit of $27.78 for $3.2 million in cash consideration.

Earnings Per Share

The following table presents the computation of basic and diluted net earnings per common share for the three months ended March 31, 2019 and 2018.

| | Three Months Ended March 31, | |
|---|---|---|
| (In thousands except for shares and per share data) | 2019 | 2018 |
| Average common shares outstanding – basic | 68,202,950 | 61,291,642 |
| Net effect of dilutive equity awards | 250,770 | 122,336 |
| Average common shares outstanding – diluted | 68,453,720 | 61,413,978 |
| Net income available to common shareholders | $17,503 | $ 16,255 |
| Basic net earnings per share | $0.26 | $ 0.27 |
| Diluted net earnings per share | $0.26 | $ 0.26 |

For the three months ended March 31, 2019 and 2018, the number of outstanding equity awards that were anti-dilutive totaled 64,894 and 349,724, 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 three months ended March 31, 2019 and 2018 was 348,548 and 409,320, respectively.

NOTE 11 – 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

20

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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 March 31, 2019, 1,508,707 shares of common stock were available for award under the Plan. The unamortized compensation cost of awards issued under the Plan totaled approximately $5.0 million at March 31, 2019 as shown in the following table.

| (In thousands) | Restricted Stock Units | Restricted Stock Awards | Performance Stock Awards | Total |
|---|---|---|---|---|
| Unrecognized compensation cost at January 1, 2019 | $ 188 | $ 1,269 | $ 1,611 | $3,068 |
| Equity grants | 1,255 | 1,852 | — | 3,107 |
| Equity grant forfeitures | — | — | — | — |
| Equity compensation expense | (150 ) | (767 ) | (297 ) | (1,214 ) |
| Unrecognized Compensation Cost at March, 31 2019 | $ 1,293 | $ 2,354 | $ 1,314 | $4,961 |

At March 31, 2019, the weighted average amortization period remaining for all of our equity awards was 2.2 years.

Restricted Stock Units

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

At March 31, 2019 and December 31, 2018, there were 80,638 and 33,592 RSUs outstanding, respectively. During the three months ended March 31, 2018, there were 47,046 shares of restricted stock granted, no restrictions on RSUs lapsed, and no RSUs were forfeited. Restrictions on these shares lapse through 2024.

Restricted Stock Awards

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

At March 31, 2019 and December 31, 2018, there were 102,998 and 100,402 RSAs outstanding, respectively. During the three months ended March 31, 2019 there were 69,423 shares of restricted stock granted, restrictions on 66,827 RSAs lapsed and those shares were distributed of which 24,385 RSAs were designated for tax withholdings and returned to the Plan. Restrictions on these shares lapse through 2022. The Company expects all RSAs to vest.

Performance-Based Restricted Stock Awards

At March 31, 2019 and December 31, 2018, the target number of PSUs that were unvested was 201,398 and 204,068, respectively. During the three months ended March 31, 2019, PSUs with a target number of 69,370 shares were granted. During the three months ended March 31, 2019, PSUs with a target number of 72,040 shares vested. The total shareholder return calculated for these PSUs resulted in a distribution of 200% of target shares, resulting in the distribution of 144,080 shares, of which 75,390 were withheld for tax and returned to the Plan.

The performance period of the unvested grants run from January 1, 2019 through December 31, 2021, from January 1, 2018 through December 31, 2020, and from January 1, 2017 through December 31, 2019. Pursuant to the PSU 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 grant date fair values of PSUs were determined through Monte-Carlo simulations using the following assumptions: our common stock closing price at the grant date, the average closing price of our common stock price for the 20 trading days prior to the grant date and a range of performance-based vesting based on estimated total stockholder return over a three year performance period. For the 2019 PSU grant, the Company used an implied volatility assumption of 20.6% (based on historical volatility), risk free rates of 2.55% (the three-year Treasury rates on the grant date), and a 0% dividend yield (the mathematical equivalent to reinvesting

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

the dividends over the three-year performance period as is consistent with the terms of the PSUs), which resulted in a grant date fair value of zero.

Based on the grant date fair value, the Company expects to recognize $1.3 million in compensation expense on a straight-line basis over the remaining requisite service period associated with the unvested PSU awards.

NOTE 12 – 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities recorded that are reported at fair value on our Consolidated Balance Sheets on a recurring basis.

March 31, 2019

| (In thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Derivative assets | $ — | $2,999 | $ — | $2,999 |
| Liabilities | | | | |
| Derivative liabilities | $ — | $649 | $ — | $649 |

December 31, 2018

| (In thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Derivative assets | $ — | $5,982 | $ — | $5,982 |
| Liabilities | | | | |
| Derivative liabilities | $ — | $— | $ — | $— |

Derivative Financial Instruments

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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 March 31, 2019, and December 31, 2018 were classified as Level 2 of the fair value hierarchy.

Fair Value of Certain Financial Liabilities

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

March 31, 2019

| (In thousands) | Carrying Value[(1)] | Fair Value |
|---|---|---|
| Term loan due 2022 | $150,000 | $150,984 |
| Term loan due 2023 | 150,000 | 150,570 |
| Term loan due 2024 | 100,000 | 100,390 |
| Senior fixed note due June 2024 | 50,000 | 52,057 |
| Senior fixed note due June 2027 | 75,000 | 79,840 |
| Senior fixed note due June 2026 | 50,000 | 52,057 |
| Senior fixed note due June 2028 | 50,000 | 52,632 |

December 31, 2018

| (In thousands) | Carrying Value[(1)] | Fair Value |
|---|---|---|
| Term loan due 2022 | $150,000 | $151,042 |
| Term loan due 2023 | 150,000 | 150,651 |
| Term loan due 2024 | 100,000 | 100,453 |
| Senior fixed note due June 2024 | 50,000 | 50,834 |
| Senior fixed note due June 2027 | 75,000 | 77,471 |
| Senior fixed note due June 2026 | 50,000 | 50,533 |
| Senior fixed note due June 2028 | 50,000 | 50,917 |

(1) Carrying values exclude deferred financing costs

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

NOTE 14 – SEGMENTS
During the three months ended March 31, 2019 and 2018, we operated in two segments: real estate operations and restaurant operations. Our segments are based on our organizational and management structure, which aligns with how our results are monitored and performance is assessed. Expenses incurred at our corporate office are allocated to real estate operations. The accounting policies of the reportable segments are the same as those described in Note 2 - Summary of Significant Accounting Policies.
The following tables present financial information by segment for the three months ended March 31, 2019 and 2018.
Three Months Ended March 31, 2019

| (In thousands) | Real Estate Operations | Restaurant Operations | Intercompany | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Rental revenue | $ 34,208 | $ — | $ — | $ 34,208 |
| Intercompany rental revenue | 102 | — | (102) | — |
| Restaurant revenue | — | 5,393 | — | 5,393 |
| Total revenues | 34,310 | 5,393 | (102) | 39,601 |
| Operating expenses: | | | | |
| General and administrative | 3,946 | — | — | 3,946 |
| Depreciation and amortization | 6,224 | 137 | — | 6,361 |
| Property expenses | 308 | — | — | 308 |
| Restaurant expenses | — | 5,085 | (102) | 4,983 |
| Total operating expenses | 10,478 | 5,222 | (102) | 15,598 |
| Net operating income | 23,832 | 171 | — | 24,003 |
| Interest expense | (6,747) | — | — | (6,747) |
| Other income | 413 | — | — | 413 |
| Income tax expense | (34) | (34) | — | (68) |
| Net Income | $ 17,464 | $ 137 | $ — | $ 17,601 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Three Months Ended March 31, 2018

| (In thousands) | Real Estate Operations | Restaurant Operations | Intercompany | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Rental revenue | $ 29,589 | $ — | $ — | $29,589 |
| Intercompany rental revenue | 100 | — | (100 ) | — |
| Restaurant revenue | — | 5,214 | — | 5,214 |
| Total revenues | 29,689 | 5,214 | (100 ) | 34,803 |
| Operating expenses: | | | | |
| General and administrative | 3,583 | — | — | 3,583 |
| Depreciation and amortization | 5,218 | 127 | — | 5,345 |
| Property expenses | 86 | — | — | 86 |
| Restaurant expenses | — | 4,970 | (100 ) | 4,870 |
| Total operating expenses | 8,887 | 5,097 | (100 ) | 13,884 |
| Net operating income | 20,802 | 117 | — | 20,919 |
| Interest expense | (4,855 ) | — | — | (4,855 ) |
| Other income | 358 | — | — | 358 |
| Income tax expense | (31 ) | (27 ) | — | (58 ) |
| Net Income | $ 16,274 | $ 90 | $ — | $16,364 |

The following tables present supplemental information by segment at March 31, 2019 and December 31, 2018.

Supplemental Segment Information at March 31, 2019

| (In thousands) | Real Estate Operations | Restaurant Operations | Total |
|---|---|---|---|
| Total real estate investments | $1,804,851 | $ 14,762 | $1,819,613 |
| Accumulated depreciation | (613,164 ) | (5,094 ) | (618,258 ) |
| Total real estate investments, net | 1,191,687 | 9,668 | 1,201,355 |
| Cash and cash equivalents | 79,398 | 1,615 | 81,013 |
| Total assets | 1,331,918 | 17,639 | 1,349,557 |
| Long-term debt, net of deferred financing costs | 616,404 | — | 616,404 |

Supplemental Segment Information at December 31, 2018

| (In thousands) | Real Estate Operations | Restaurant Operations | Total |
|---|---|---|---|
| Total real estate investments | $1,788,462 | $ 16,819 | $1,805,281 |
| Accumulated depreciation | (607,556 ) | (7,028 ) | (614,584 ) |
| Total real estate investments, net | 1,180,906 | 9,791 | 1,190,697 |
| Cash and cash equivalents | 90,690 | 1,351 | 92,041 |
| Total assets | 1,331,213 | 11,885 | 1,343,098 |
| Long-term debt, net of deferred financing costs | 615,892 | — | 615,892 |

NOTE 15 – SUBSEQUENT EVENTS

The Company reviewed its subsequent events and transactions that have occurred after March 31, 2019, the date of the consolidated balance sheet, through April 24, 2019 and noted the following:

Through April 24, 2019, the Company invested $4.7 million in the acquisition of three properties located in three states, with an investment yield of approximately 6.9%. The properties are 100% occupied under net leases with a weighted average lease term of 11.4 years remaining. The Company funded the acquisitions 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 March 31, 2019.

Through April 24, 2019, the Company sold 1,637,661 shares of common stock under the Company's ATM program, including 34,183 shares of Common Stock issued and sold by the Company through the managers under the ATM program for gross proceeds of approximately $1.0 million and 1,603,478 shares of Common Stock sold by a forward purchaser through a manager under the ATM program and pursuant to a forward sale agreement for gross proceeds of approximately $47.0 million based on the initial forward price.

There were no other material subsequent events or transactions.

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

Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Also, when Four Corners Property Trust, Inc. uses any of the words "anticipate," "assume," "believe," "estimate," "expect," "intend," or similar expressions, Four Corners Property Trust, Inc. is making forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are based upon present expectations and reasonable assumptions, actual results could differ materially from those set forth in the forward-looking statements. Certain factors that could cause actual results or events to differ materially from those anticipated or projected are described in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, as such factors may be updated from time to time in our periodic filings with the Securities and Exchange Commission. Given these uncertainties, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q or any document incorporated herein by reference. Four Corners Property Trust, Inc. undertakes no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K of Four Corners Property Trust, Inc. for the year ended December 31, 2018. Any references to "FCPT," "the Company," "we," "us," or "our" refer to Four Corners Property Trust, Inc as an independent, publicly traded, self-administered company.

Overview

We are a Maryland corporation and a real estate investment trust ("REIT") which owns, acquires and leases properties for use in the restaurant and food-service related industries. Substantially all of our business is conducted through Four Corners Operating Partnership, LP ("FCPT OP"), a Delaware limited partnership of which we are a majority limited partner and our wholly owned subsidiary, Four Corners GP, LLC ("FCPT GP"), is its sole general partner. We believe that we have operated in conformity with the requirements for qualification and taxation as a REIT for the taxable year ended December 31, 2018, and we intend to continue to operate in a manner that will enable us to maintain our qualification as a REIT.

Our revenues are primarily generated by leasing properties to tenants through net lease arrangements under which the tenants are primarily responsible for ongoing costs relating to the properties, including utilities, property taxes, insurance, common area maintenance charges, and maintenance and repair costs. We focus on income producing properties leased to high quality tenants in major markets across the United States. 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 that reliance on Darden over time. We intend to purchase properties that are well located, occupied by durable concepts, with creditworthy tenants whose operating cash flows are expected to meaningfully exceed their lease payments to us. We seek to improve the probability of successful tenant renewal at the end of initial lease terms by acquiring properties that have high levels of operator profitability compared to rent payments and have absolute rent levels that generally reflect market rates.

During the three months ended March 31, 2019, FCPT acquired 11 restaurant properties for a total investment value of $20.3 million, including transaction costs. These properties are 100% occupied under net leases with a weighted average lease term of 10.8 years.

At March 31, 2019, our wholly-owned lease portfolio had the following characteristics:

- 621 free-standing properties located in 45 states and representing an aggregate leasable area of 4.2 million square feet;
- 99.9% occupancy (based on leasable square footage);
- An average remaining lease term of 12.0 years (weighted by annualized base rent);
- An average annual rent escalation of 1.5% through December 31, 2029 (weighted by annualized base rent); and

• 77% investment grade tenancy (weighted by annualized base rent).

Results of Operations

During the three months ended March 31, 2019, we operated in two segments: real estate operations and restaurant operations. The following discussion includes the results of our operations for the three months ended March 31, 2019 and 2018 as summarized in the table below:

| (In thousands) | Three Months Ended March 31, 2019 | 2018 |
|---|---|---|
| Revenues: | | |
| Rental revenue | $34,208 | $29,589 |
| Restaurant revenue | 5,393 | 5,214 |
| Total revenues | 39,601 | 34,803 |
| Operating expenses: | | |
| General and administrative | 3,946 | 3,583 |
| Depreciation and amortization | 6,361 | 5,345 |
| Property expenses | 308 | 86 |
| Restaurant expenses | 4,983 | 4,870 |
| Total operating expenses | 15,598 | 13,884 |
| Net operating income | 24,003 | 20,919 |
| Interest expense | (6,747) | (4,855) |
| Other income | 413 | 358 |
| Income tax expense | (68) | (58) |
| Net income | 17,601 | 16,364 |
| Net income attributable to noncontrolling interest | (98) | (109) |
| Net Income Attributable to Common Shareholders | $17,503 | $16,255 |

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Real Estate Operations

Rental Revenue

Rental revenue increased $4.6 million, or 15.6%, during the three months ended March 31, 2019 compared to the three months ended March 31, 2018. This increase was due to the acquisition of 97 properties, less two properties sold during the year-over-year period from April 1, 2018 through March 31, 2019. During the three months ended March 31, 2019, we recognized costs paid by the lessor and reimbursed by the lessees within rental revenue of $198 thousand. These amounts are also recognized in property expenses.

We recognize rental income on a straight-line basis to include the effect of base rent escalators, and free rent periods, if any.

General and Administrative 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 expenses increased $363 thousand in the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to increases in employee compensation, recruiting, and accounting professional fees.

Depreciation and Amortization Expense

Depreciation and amortization expense represents the depreciation on real estate investments that have estimated lives ranging from two to 55 years. Depreciation and amortization increased by approximately $1 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, due to the acquisition of 96 properties less two properties sold during the year-over-year period.

Property Expense

Upon adoption of ASC 842, we record all tenant expenses, both reimbursed and non-reimbursed, to property expense. We also record initial direct costs (lease negotiation and other previously capitalizable transaction expenses) as property expenses. Other property expenses consist of expenses incurred on vacant properties, abandoned deal costs, and franchise taxes. Franchise tax and other non-reimbursable property and transaction costs were previously recognized in general and administrative. During the three months ended March 31, 2019, we recorded property expenses of $308 thousand, of which $198 thousand was reimbursed by tenants.

Interest Expense

We incur interest expense on our $400 million of term loans, any outstanding borrowings on our revolving credit facility, interest rate swaps, and our $225 million of senior fixed rate notes. Interest expense increased $1.9 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to the issuance of $100 million in senior fixed rate notes in December 2018. As of March 31, 2019 and 2018, we had no outstanding borrowings under the revolving credit facility.

Realized Gain on Sale, Net

The Company did not dispose of any assets during the three months ended March 31, 2019 and 2018.

Income Taxes

During the three months ended March 31, 2019 and 2018, our income tax expense was $68 thousand and $58 thousand, respectively. The income tax provision consists of federal, state, and local income taxes incurred by the Kerrow Restaurant Operating Business, and state and local income taxes incurred by FCPT on its lease portfolio.

Restaurant Operations

Restaurant revenues increased by $179 thousand during the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily due to a continued emphasis on customer service, increased marketing and outreach, an increase in to-go and catering orders, and a general improvement in casual dining trends. Average revenue per restaurant increased by 3.4% to $899 thousand per location during the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

Total restaurant expenses increased by $113 thousand, or 2.3%, during the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to food and labor costs increasing along with increasing sales, increase in hourly wage rates due to the competitive industry, and increase of property taxes.

Critical Accounting Policies

The preparation of FCPT’s consolidated financial statements in conformance with GAAP requires management to make estimates on assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as other disclosures in the financial statements. On an ongoing basis, management evaluates its estimates and assumptions; however, actual results may differ from these estimates and assumptions, which in turn could have a material impact on our financial statements. A summary of FCPT’s critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2018 in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates.” Management believes those critical accounting policies, among others, affect our more significant estimates and assumptions used in the preparation of our consolidated financial statements.

New Accounting Standards

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

Liquidity and Financial Condition

At March 31, 2019, we had $81.0 million of cash and cash equivalents and $250.0 million of borrowing capacity under our revolving credit facility, which expires on November 9, 2021, subject to our ability to extend the term for two additional six-month periods to November 9, 2022. The revolving credit facility provides for a letter of credit sub-limit of $25 million. See Note 7 - Long-Term Debt, Net of Deferred Financing Costs included in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information. As of March 31, 2019, we had no outstanding borrowings under our revolving credit facility and no outstanding letters of credit. The credit facility also includes $400 million of non-amortizing term loans, of which $150 million will mature on November 9, 2022, $150 million will mature on November 9, 2023, and $100 million will mature on March 9, 2024. At March 31, 2019, the weighted average interest rate on the term loans, after consideration of the interest rate hedges, was 3.18%.

In March 2019 we updated our ATM program, pursuant to which up to $210 million of additional shares of common stock may be offered and sold (1) by us to, or through, a consortium of banks acting as our sales agents or (2) by a consortium of banks acting as forward sellers on behalf of any forward purchasers contemplated thereunder, in each case by means of ordinary brokers' transactions on the NYSE at prevailing market prices or at negotiated prices. During the three months ended March 31, 2019, we issued 25,455 shares and raised gross proceeds of $740 thousand. From the inception of our ATM program through March 31, 2019, we have issued 4,121,068 shares and raised $101.2 million. At March 31, 2019, $209.2 million in gross proceeds capacity remained available under the ATM program.

We have entered into interest rate swaps to hedge the interest rate variability associated with our credit facility. On November 9, 2015, we entered into an interest rate swap that has a fixed notional value of $200 million that matures on November 9, 2020, where the fixed rate paid by FCPT OP is 1.56% and the variable rate received resets monthly to the one month LIBOR rate. On July 12, 2017, we entered into a swap with a fixed notional value of $100 million, an effective date of November 9, 2018, and a maturity date of November 9, 2021, where the fixed rate paid by FCPT OP is 1.96% and the variable rate received resets monthly to the one month LIBOR rate. On July 12, 2017, we entered into a swap with a fixed notional value of $100 million, an effective date of November 9, 2020, a maturity date of November 9, 2023, where the fixed rate paid by FCPT OP is 2.302% and the variable rate received resets monthly to the one-month LIBOR rate. A fourth swap, which was entered into on August 29, 2017, is a 10-year swap with a fixed notional value of $100 million for its first twelve months and $200 million for its second twelve months with an effective date of November 9, 2020, a maturity date of November 9, 2022 and where the fixed rate paid by FCPT is 2.002% and the variable rate received resets monthly to the one month LIBOR rate.

These four hedging agreements were entered into to mitigate the interest rate risk inherent in FCPT OP's variable rate debt and not for trading purposes. These swaps are accounted for as cash flow hedges with all interest income and expense recorded as a component of net income and other valuation changes recorded as a component of other comprehensive income.

On June 7, 2017 and December 20, 2018, FCPT OP issued $125 million and $100 million, respectively, of senior unsecured fixed rate notes (together, the "Notes") in private placements pursuant to note purchase agreements with the various purchasers. The Notes issued on June 7, 2017 consist of $50 million of notes with a term ending in June 2024 and priced at a fixed interest rate of 4.68%, and $75 million of notes with a term ending in June 2027 and priced at a fixed interest rate of 4.93%. The Notes issued on December 20, 2018 consist of $50 million of notes with a term ending in December 2026 and priced at a fixed interest rate of 4.63%, and $50 million of notes with a term ending in December 2028 and priced at a fixed interest rate of 4.76%.

On a short-term basis, our principal demands for funds will be for operating expenses, distributions to stockholders and interest and principal on current and any future debt financings. We expect to fund our operating expenses and other short-term liquidity requirements, capital expenditures, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs and cash distributions to common stockholders, primarily through cash provided by operating activities, and, for acquisitions, investments, and other capital expenditures, from borrowings under our $250 million revolving credit facility.

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

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

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

Contractual Obligations

There were no material changes outside the ordinary course of business to the information regarding specified contractual obligations contained in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC.

Off-Balance Sheet Arrangements

At March 31, 2019, we had no off-balance sheet arrangements.

Supplemental Financial Measures

The following tables presents a reconciliation of U.S. GAAP net income to National Association of Real Estate Investment Trusts (“NAREIT”) funds from operations (“FFO”) and adjusted funds from operations (“AFFO”) for the three months ended March 31, 2019 and 2018.

| | Three Months Ended March 31, | |
|---|---|---|
| (In thousands, except share and per share data) | 2019 | 2018 |
| Net income | $17,601 | $ 16,364 |
| Depreciation and amortization on real estate investments | 6,344 | 5,317 |
| Realized gain on sales of real estate | — | — |
| Realized gain on exchange of real estate [1] | — | (228) |
| FFO (as defined by NAREIT) | $23,945 | $ 21,453 |
| Straight-line rent | (2,359) | (2,283) |
| Non-cash stock-based compensation | 1,214 | 1,184 |
| Non-cash amortization of deferred financing costs | 513 | 455 |
| Other non-cash interest expense | (3) | (5) |
| Non-real estate investment depreciation | 17 | 13 |
| Amortization of above and below market leases | 12 | 15 |
| Adjusted Funds from Operations (AFFO) | $23,339 | $ 20,832 |
| Fully diluted shares outstanding [2] | 68,802,268 | 61,823,298 |
| FFO per diluted share | $0.35 | $ 0.35 |
| AFFO per diluted share | $0.34 | $ 0.34 |

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

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

Non-GAAP Definitions

The certain non-GAAP financial measures included above management believes are helpful in understanding our business, as further described below. Our definition and calculation of non-GAAP financial measures may differ from those of other REITs

and therefore may not be comparable. The non-GAAP measures should not be considered an alternative to net income as an indicator of our performance and should be considered only a supplement to net income, and to cash flows from operating, investing or financing activities as a measure of profitability and/or liquidity, computed in accordance with GAAP.

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

Our management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We offer this measure because we recognize that FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures and capitalized leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our financial condition and results from operations, the utility of FFO as a measure of our performance is limited. FFO is a non-GAAP measure and should not be considered a measure of liquidity including our ability to pay dividends or make distributions. In addition, our calculations of FFO are not necessarily comparable to FFO as calculated by other REITs that do not use the same definition or implementation guidelines or interpret the standards differently from us. Investors in our securities should not rely on these measures as a substitute for any GAAP measure, including net income.

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information concerning market risk is incorporated herein by reference to Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, 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, 2018.

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

During the first quarter of 2019, we implemented new internal controls to support our adoption of the new lease accounting standard ASU No. 2016-02, Leases (Topic 842). 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 disclosed in the section entitled “Risk Factors” beginning on page 9 of our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

INDEX TO EXHIBITS

| Exhibit Number | Description |
|---|---|
| 3.1 | Articles of Amendment and Restatement of Four Corners Property Trust, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 27, 2015). |
| 3.2 | Amended and Restated Bylaws of Four Corners Property Trust, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on October 27, 2015). |
| 10.1 | Amendment No. 3 to Amended and Restated Revolving Credit and Term Loan Agreement, dated March 22, 2019, among Four Corners Operating Partnership, LP, Four Corners Property Trust, Inc., certain lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent. |
| 31 (a) | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31 (b) | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 (a) | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32 (b) | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

SIGNATURE

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

FOUR CORNERS PROPERTY TRUST, INC.

| | | | |
|---|---|---|---|
| Dated: | April 25, 2019 | By: | /s/ William H. Lenehan |
| | | | William H. Lenehan |
| | | | President and Chief Executive Officer |
| | | | (Principal Executive Officer) |
| Dated: | April 25, 2019 | By: | /s/ Gerald R. Morgan |
| | | | Gerald R. Morgan |
| | | | Chief Financial Officer |
| | | | (Principal Financial Officer) |
| Dated: | April 25, 2019 | By: | /s/ Niccole M. Stewart |
| | | | Niccole M. Stewart |
| | | | Chief Accounting Officer |
| | | | (Principal Accounting Officer) |