Four Corners Property Trust, Inc.
Form 10-Q
August 04, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2016
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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company ¨

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 August 3, 2016: 59,885,881

FOUR CORNERS PROPERTY TRUST, INC.
FORM 10 - Q
THREE AND SIX MONTHS ENDED JUNE 30, 2016
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Real estate investments:		
Land	$ 404,812	$ 404,812
Buildings, equipment and improvements	992,442	992,418
Total real estate investments	1,397,254	1,397,230
Less: Accumulated depreciation	(578,827)	(568,539)
Total real estate investments, net	818,427	828,691
Cash and cash equivalents	38,732	98,073
Derivative assets	—	165
Deferred rent	6,690	1,500
Other assets	851	1,008
Total Assets	$ 864,700	$ 929,437
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of deferred financing costs	$ 393,098	$ 392,302
Derivative liabilities	9,294	477
Deferred rental revenue	7,866	7,940
Deferred tax liabilities	206	80,881
Dividends payable	14,509	—
Other liabilities	3,898	6,195
Total liabilities	428,871	487,795
Stockholders' 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, 59,885,881 and 42,741,995 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	6	4
Additional paid-in capital	437,437	436,697
Accumulated other comprehensive loss	(8,862)	(316)
Retained earnings	7,248	5,257
Total stockholders' equity	435,829	441,642
Total Liabilities and Equity	$ 864,700	$ 929,437

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Rental income	$26,210	$ —	$52,463	$ —
Restaurant revenues	4,701	4,624	9,560	9,514
Total revenues	30,911	4,624	62,023	9,514
Operating expenses:				
General and administrative	2,508	—	5,826	—
Depreciation and amortization	5,101	185	10,288	397
Restaurant expenses	4,593	4,335	9,291	8,848
Interest expense	3,858	—	8,039	—
Total expenses	16,060	4,520	33,444	9,245
Income before income tax	14,851	104	28,579	269
(Provision for) benefit from income tax	(50)	30	80,506	11
Net Income	$14,801	$ 134	$109,085	$ 280
Other comprehensive loss:				
Realized and unrealized loss in hedging transactions, net	(2,088)	—	(8,546)	—
Comprehensive Income	$12,713	$ 134	$100,539	$ 280
Basic net income per share:	$0.25	N/A [2]	$2.02	N/A [2]
Diluted net income per share:	$0.25	N/A [2]	$1.84	N/A [2]
Weighted average number of common shares outstanding:				
Basic	59,830,284	N/A [2]	54,102,565	N/A [2]
Diluted [1]	59,844,059	N/A [2]	59,271,807	N/A [2]
Dividends declared per common share	$0.2425	—	$0.4850	—

(1) Includes 17,085,566 shares issued on March 2, 2016 as part of our Earnings and Profits distribution to satisfy REIT requirements. For financial reporting purposes, these shares were assumed to have been issued on January 7, 2016.
(2) Due to the material change in the Company's operations as a result of our formation transaction in November 2015, management does not consider presentation of income per share for the pre-formation period to be meaningful.

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance at December 31, 2015	42,741,995	$ 4	$436,697	$ 5,257	$ (316)	$441,642
Net income	—	—	—	109,085	—	109,085
Other comprehensive loss	—	—	—	—	(8,546)	(8,546)
Earnings and profits distribution [1]	17,085,566	2	(2)	(78,076)	—	(78,076)
Dividends declared on common stock	—	—	—	(29,018)	—	(29,018)
Stock-based compensation, net	58,320	—	742	—	—	742
Balance at June 30, 2016	59,885,881	$ 6	$437,437	$ 7,248	$ (8,862)	$435,829

(1) The earnings and profit distribution is accounted for as a stock split effected in the form of a dividend.

The accompanying notes are an integral part of this financial statement.
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FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2016		2015	
Cash flows - Operating activities				
Net income	$ 109,085		$ 280	
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	10,288		397	
Amortization of financing costs	796		—	
Stock-based compensation expense	742		85	
Deferred income taxes	(80,675	)	(38	)
Changes in assets and liabilities:				
Derivative assets and liabilities	436		—	
Deferred rent asset	(5,190	)	—	
Deferred rental revenue	(74	)	—	
Other assets and liabilities	(2,139	)	(370	)
Net cash provided by operating activities	33,269		354	
Cash flows - investing activities				
Purchases of fixed assets	(24	)	(50	)
Net cash used in investing activities	(24	)	(50	)
Cash flows - financing activities				
Net distributions to parent	—		(304	)
Payment of dividend to shareholders	(92,586	)	—	
Net cash used in financing activities	(92,586	)	(304	)
Net decrease in cash	(59,341	)	—	
Cash and cash equivalents,	98,073		7	

beginning of period				
Cash and cash equivalents, ending of period	$	38,732	$	7
Supplemental disclosures:				
Dividends declared but not paid	$	14,509	—	
Interest paid	$	6,556	—	
Taxes paid	$	2,295	—	

The accompanying notes are an integral part of this financial statement.
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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

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

We intend to elect to be taxed, and have operated and intend to continue to operate in a manner that will allow us to qualify as a real estate investment trust ("REIT") for U.S. federal income tax purposes commencing with our taxable year beginning January 1, 2016. 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 stockholders, 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 stockholders. However, FCPT's taxable REIT subsidiaries ("TRS") will generally be subject to federal, state, and local income taxes. We will make our REIT election upon the filing of our 2016 tax return.

Any references to "the Company," "we," "us," "our" or "the Successor" refer to FCPT as an independent, publicly traded, self-administered company. Any references to the Kerrow Restaurant Operating Business refer to the Kerrow Restaurant operations as owned by Darden for all periods prior to November 9, 2015 and as owned by us for periods subsequent to November 9, 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

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

The historical financial statements for the Kerrow Restaurant Operating Business were prepared on a stand-alone basis and were derived from the consolidated financial statements and accounting records of Darden. These statements reflect the historical financial condition and results of operations of Kerrow Restaurant Operating Business in accordance with GAAP. The consolidated and combined financial statements include all revenues and costs allocable to us either through specific identification or allocation, and all assets and liabilities directly attributable to us as derived from the operations of the restaurants. The consolidated and combined statements of comprehensive income include allocations of certain costs from Darden incurred on our behalf. See Note 4 - Related Party Transactions for a further description of allocated expenses.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

Reclassifications

Certain amounts previously reported under specific financial statement captions have been reclassified to be consistent with the current period presentation. For the three and six months ended June 30, 2016, we have conformed the prior presentation of the Kerrow Restaurant Operating Business to the current format for comparability purposes.

Use of Estimates

The preparation of these consolidated and combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. The estimates and assumptions used in the accompanying consolidated and combined financial statements are based on management's evaluation of the relevant facts and circumstances as of the date of the combination. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements, and such differences could be material.

Real Estate Investments, Net

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

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

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.

Restaurant sites and certain other assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Restaurant sites and certain other assets to be disposed of are included in assets held for sale when certain criteria are met. These criteria include the requirement that 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 are reviewed to determine whether those assets would also meet the requirements to be reported as discontinued operations.

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 statements of comprehensive income as the original impairment.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents can consist of cash and money market accounts.

Inventories

Inventories consist of food and beverages and are valued at the lower of weighted-average cost or market.

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 GAAP, changes in the derivatives' fair value are not included in current earnings but are included in accumulated other comprehensive income (loss), net of tax. These changes in fair value will be reclassified into earnings at the time of the forecasted transaction. Ineffectiveness measured in the hedging relationship is recorded in earnings in the period in which it occurs.

See Note 8 - Derivative Financial Instruments for additional information.

Other Assets and Liabilities

Other assets primarily consist of prepaid assets, inventories, and accounts receivable. Other liabilities primarily consist of accrued compensation, accrued operating expenses, and deferred rent obligations on certain operating leases.

Deferred Financing Costs

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

Revenue Recognition

Rental income

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

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

governmental authorities are presented on a net basis within rental income in our consolidated and combined statements of comprehensive income.

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

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

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

Restaurant revenue

Restaurant revenue represents food, beverage, and other products sold and is presented net of the following discounts: coupons, employee meals, complimentary meals and gift cards. Revenue from restaurant sales is recognized when food and beverage products are sold. We recognize sales from our gift cards when the gift card is redeemed by the customer. Sales taxes collected from customers and remitted to governmental authorities are presented on a net basis within restaurant revenue on our consolidated and combined statements of comprehensive income.

See Application of New Accounting Standards below for discussion of the application of ASU 2014-09.

Restaurant Expenses

Restaurant expenses include restaurant labor, general and administrative expenses, and food and beverage costs. Food and beverage costs include inventory, warehousing, related purchasing and distribution costs. Vendor allowances received in connection with the purchase of a vendor's products are recognized as a reduction of the related food and beverage costs as earned. For expenses incurred prior to November 9, 2015, advance payments were made to Darden by the vendors based on estimates of volume to be purchased from the vendors and the terms of the agreement. As we made purchases from the vendors each period, Darden allocated the pro rata portion of allowances earned by us. We recorded these allowances as a reduction of food and beverage costs in the period earned. We considered the allocation methodology and results to be reasonable for the periods presented.

Income Taxes

We intend to elect and qualify as a REIT for U.S. federal income tax purposes commencing with the taxable year beginning January 1, 2016. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our stockholders. To maintain our qualification as a REIT, we will be 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 stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate rates. Even if we qualify as a REIT, we may also be subject to certain state, local and franchise taxes. Under certain circumstances, U.S. federal income and excise taxes may be due on our undistributed taxable income.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

We will be taxed as a C corporation and expect to pay U.S. federal corporate income taxes for our taxable year ending December 31, 2015.

We provide for federal and state income taxes currently payable as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Federal income tax credits are recorded as a reduction of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Interest recognized on reserves for uncertain tax positions is included in interest, net in our consolidated statements of comprehensive income. A corresponding liability for accrued interest is included as a component of other liabilities on our consolidated balance sheets. Penalties, when incurred, are recognized in general and administrative expenses.

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

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

Tax accounting guidance requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50 percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

We include within our current tax provision the balance of unrecognized tax benefits related to tax positions for which it is reasonably possible that the total amounts could change during the next 12 months based on the outcome of examinations.

Prior to the Spin-Off, our restaurant operations were included in the consolidated federal income tax return of Darden, as well as certain state tax returns where Darden files on a combined basis. Darden, the predecessor of the Company for accounting purposes ("the Predecessor") has applied the provisions of FASB ASC Topic 740, Income Taxes, and computed the provision for income taxes on a separate return basis. The separate return method applies the accounting guidance for income taxes to the stand-alone consolidated and combined financial statements as if the Predecessor was a separate taxpayer and a stand-alone enterprise for the periods presented. The calculation of income taxes for the Predecessor on a separate return basis requires a considerable amount of judgment and use of both estimates and allocations. We believe that the assumptions and estimates used to compute these tax amounts are reasonable. However, the Predecessor's financial statements may not necessarily reflect its income tax expense or tax payments in the future, or what our tax amounts would have been had the Predecessor been a stand-alone enterprise during the periods presented.

Federal and state income taxes payable prior to the Spin-Off were settled through the parent company equity account. The Predecessor provided for taxes that are deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Federal income tax credits have been recorded as a reduction of income taxes. Deferred tax assets and liabilities have been 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 have been 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 have been recognized in earnings in the period that

includes the enactment date.
In determining the need for a valuation allowance or the need for uncertain tax positions, the Predecessor made certain estimates and assumptions. These estimates and assumptions were based on, among other things, knowledge of the operations, markets, historical trends and likely future changes and, when appropriate, the opinion of advisors with knowledge and expertise in relevant

fields. Due to certain risks associated with our estimates and assumptions, actual results could differ. See Note 10 - Income Taxes for additional information.

Stock-Based Compensation

The Company's stock-based compensation plan provides for the grant of restricted stock, deferred stock units, performance-based awards (including performance stock units), dividend equivalents, restricted stock units, and other types of awards to eligible participants. 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.

Earnings Per Share

Basic earnings per share ("EPS") are computed by dividing net income allocated to common shareholders by the weighted-average number of common shares outstanding for the reporting period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. No effect is shown for any securities that are anti-dilutive. Net income allocated to common shareholders represents net income less income allocated to participating securities. At June 30, 2016, none of the Company's equity awards qualified as participating securities.

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.

Emerging Growth Company

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Exchange Act for complying with new or revised accounting standards applicable to public companies. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected not to take advantage of this extended transition period, and such election is irrevocable pursuant to Section 107(b) of the JOBS Act.

Application of New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". The standard outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to receive for those goods or services. On July 9, 2015, the FASB decided to delay the effective date of ASU 2014-09 for one year. The standard is now effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption for annual periods beginning after December 15, 2016 and interim periods within those annual periods is permitted. We are evaluating the effect this guidance will have on our consolidated and combined financial statements and related disclosures.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis” which makes certain changes to both the variable interest model and the voting model including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. ASU 2015-02 is effective for us beginning January 1, 2016. Adoption of this guidance has had no material impact on our consolidated and combined financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory,” which applies to inventory that is measured using first-in, first-out (“FIFO”) or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, first-out (“LIFO”). This ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. We do not expect adoption of this guidance to have a material impact on our consolidated and combined financial statements or related disclosures.

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

In March 2016, the FASB issued ASU No. 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which amends how companies account for certain aspects of share-based payments to employees. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. We do not expect adoption of this guidance to have a material impact on our consolidated and combined financial statements or related disclosures.

NOTE 3 – CONCENTRATION OF CREDIT RISK

Our tenant base and the restaurant brands operating our properties are highly concentrated. With respect to our tenant base, Darden is the sole tenant of the Properties, which constitute approximately 99% of the properties we own. In addition, Darden Restaurants, Inc. has guaranteed the obligations of the tenants under substantially all of the Leases entered into in respect of the Properties. As our revenues predominately consist of rental payments under the Leases, we are dependent on Darden for substantially all of our leasing revenues. The audited financial statements for Darden can be found in the Investor Relations section at www.darden.com. We are providing this website address solely for the information of our stockholders. We do not intend this website to be an active link or to otherwise incorporate the information contained on such website into this report or other filings with the SEC.

We also are subject to concentration risk in terms of the restaurant brands that operate the Properties. With 300 locations in our portfolio, Olive Garden branded restaurants comprise approximately 72% of the Properties and approximately 74% of the revenues received under the Leases, based on the total number of locations leased. Our properties are located in 44 states, with concentrations of 10% or greater in two states: Florida (11%) and Texas (11%).

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents. We are exposed to credit risk with respect to cash held at various financial institutions, access to our credit facility, and amounts due or payable under our derivative contracts. At June 30, 2016, we did not have exposure to risk related to our derivative instruments, as the derivatives were in a liability position of $9.5 million including $0.2 million of accrued interest, and the counterparty to such instruments is an investment grade financial

institution. Our credit risk exposure with regard to our

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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

cash and the $350 million available capacity under the revolver portion of our credit facility is spread among a diversified group of investment grade financial institutions.

NOTE 4 – RELATED PARTY TRANSACTIONS

Allocation of Darden Corporate Expenses to the Predecessor

Prior to the Spin-Off, we were managed in the normal course of business by Darden and its subsidiaries. All direct costs incurred in connection with our operations for which specific identification was practical have been included in the stand-alone combined financial statements. Additionally, certain shared costs and certain support functions have been allocated to us and reflected as expenses in the stand-alone consolidated and combined financial statements. Management considers the allocation methodologies used to be reasonable and appropriate reflections of the historical Darden expenses allocable to the Predecessor for purposes of the stand-alone financial statements; however, the expenses reflected in the consolidated and combined financial statements may not be indicative of the actual expenses that would have been incurred during the periods presented if we had operated as a separate, stand-alone entity. Management does not believe, however, that it is practicable to estimate what these expenses would have been had we operated as a separate, stand-alone entity, including any expenses associated with obtaining any of these services from unaffiliated entities. Actual costs that would have been incurred had we been a stand-alone entity would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure. In addition, the expenses reflected in the combined financial statements may not be indicative of expenses that will be incurred by us in the future.

The costs allocated to us were made on the basis of operating weeks, net sales or other relevant measures. Corporate expense allocations primarily relate to centralized corporate functions, including advertising, finance, accounting, treasury, tax, legal, internal audit, human resources, facilities, risk management functions, employee benefits and stock based compensation (except for specifically identified stock-based compensation benefits discussed in Note 9 - Stock-Based Compensation). In addition, corporate expenses include, among other costs, maintenance of existing software, technology and websites, development of new or improved software technology, professional fees for legal, accounting, and financial services, non-income taxes and expenses related to litigation, investigations, or similar matters. Corporate expenses allocated to us of $0.3 million and $0.5 million for the three and six months ending June 30, 2015, respectively, were included within restaurant expenses in our combined statements of comprehensive income. All of the corporate allocations of costs are deemed to have been incurred and settled through parent company equity in the period where the costs were recorded. Following the Spin-Off, we began performing these functions using our own resources or purchased services. For an interim period, however, some of these functions were provided by Darden under transition services agreements. Subsequent to the Spin-Off on November 9, 2015, Darden was no longer a related party.

NOTE 5 – REAL ESTATE INVESTMENTS, NET

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

	June 30,	December 31,
(In thousands)	2016	2015
Land	$404,812	$404,812
Buildings and improvements	851,967	851,967
Equipment	140,475	140,451
Total gross real estate investments	1,397,254	1,397,230
Less: accumulated depreciation	(578,827)	(568,539)
Total Real Estate Investments, Net	$818,427	$828,691

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

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

(In thousands)	June 30, 2016
2016 (six months)	$47,430
2017	96,044
2018	97,485
2019	98,947
2020	100,431
Thereafter	1,034,463
Total Future Minimum Rentals	$1,474,800

NOTE 6 – SUPPLEMENTAL DETAIL FOR CERTAIN COMPONENTS OF CONSOLIDATED BALANCE SHEET

The components of other assets were as follows:

(In thousands)	June 30, 2016	December 31, 2015
Prepaid assets	$360	$ 689
Inventories	166	198
Accounts receivable	90	70
Other	235	51
Total Other Assets	$851	$ 1,008

The components of other liabilities were as follows:

(In thousands)	June 30, 2016	December 31, 2015
Accrued interest expense	$1,034	$ 959
Accrued compensation	785	465
Accounts payable	677	922
Deferred rent liability	614	580
Accrued operating expenses	459	915
Other accrued income taxes	—	2,008
Other	329	346
Total Other Liabilities	$3,898	$ 6,195

NOTE 7 – NOTES PAYABLE

At both June 30, 2016 and December 31, 2015, our notes payable were $400 million, net of unamortized deferred financing costs of $6.9 million and $7.7 million, respectively. The weighted average interest rate on the term loan was 2.15% and 1.99% at June 30, 2016 and December 31, 2015, respectively. During the three and six months ended June 30, 2016, amortization of deferred financing costs was $398 thousand and $796 thousand, respectively. As of June 30, 2016 and December 31, 2015, there were no outstanding borrowings under the revolving credit facility and no outstanding letters of credit.

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 effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded on our consolidated balance sheet in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Changes in the fair value of the ineffective portion of these hedges are recorded in earnings.

On November 10, 2015, we entered into two interest rate swaps pursuant to an International Swaps and Derivatives Association Master Agreement with J.P. Morgan Chase Bank, N.A. to economically hedge our exposure in cash flows associated with our variable rate debt obligations described above. One swap has a fixed notional value of $200.0 million that matures on November 9, 2018, where the fixed rate paid by FCPT OP is equal to 1.16% and the variable rate received resets monthly to the one month LIBOR rate. The second swap has a fixed notional value of $200.0 million that matures on November 9, 2020, where the fixed rate paid by FCPT OP is equal to 1.56% and the variable rate received resets monthly to the one month LIBOR rate. These hedging agreements were not entered into for trading purposes and have been designated as cash flow hedges. At June 30, 2016, these interest rate swaps were still in place.

For the three and six months ended June 30, 2016, we recorded approximately $5 thousand and $353 thousand, respectively, of hedge ineffectiveness in earnings attributable to zero-percent floor and rounding mismatches in the hedging relationships.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. We estimate that over the next twelve months an additional $3.4 million will be reclassified to earnings as an increase to interest expense.

Non-designated Hedges

We do not use derivatives for trading or speculative purposes. During the six months ended June 30, 2016 and 2015, we did not have any derivatives that were not designated as hedges.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

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

The table below presents the fair value of our derivative financial instruments as well as their classification on the consolidated balance sheet as of June 30, 2016 and December 31, 2015.

	Derivative Assets			Derivative Liabilities		
		Fair Value at			Fair Value at	
(Dollars in thousands)	Balance Sheet Location	June 30, 2016	December 31, 2015	Balance Sheet Location	June 30, 2016	December 31, 2015
Derivatives designated as hedging instruments:						
Interest rate swaps	Derivative assets	$ —	$ 165	Derivative liabilities	$ 9,294	$ 477
Total		$ —	$ 165		$ 9,294	$ 477

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

The table below presents the effect of our interest rate swaps on the statements of comprehensive income for the three and six months ended June 30, 2016.

(Dollars in thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amounts Excluded from Effectiveness Testing)
Three months ended June 30, 2016	$ (3,067)	Interest expense	$ (979)	Interest expense	$ (5)
Six months ended June 30, 2016	$ (10,510)	Interest expense	$ (1,964)	Interest expense	$ (353)

Tabular Disclosure Offsetting Derivatives

The table below presents a gross presentation, the effects of offsetting, and a net presentation of our derivatives as of June 30, 2016 and December 31, 2015. 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 sheet.

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
June 30, 2016	$ —	$ —	$ —	$ —	$ —	$ —

December 31, 2015	165	—	165	(165)	—	—

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

Offsetting of Derivative Liabilities

(In thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Posted	
June 30, 2016	$ 9,294	—	$ 9,294	$ —	$ —	$ 9,294
December 31, 2015	477	—	477	(165)	—	312

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.

As of June 30, 2016 and December 31, 2015, the fair value of derivatives in a net liability position related to these agreements was approximately $9.3 million and $618 thousand, respectively. As of June 30, 2016, we have not posted any collateral related to these agreements. If we had breached any of these provisions at June 30, 2016, we could have been required to settle our obligations under the agreements at their termination value of approximately $9.5 million including accrued interest.

NOTE 9 – STOCK-BASED COMPENSATION

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

At June 30, 2016, 1,916,825 shares of common stock were available for award under the Plan. The unamortized compensation cost of awards issued under the Incentive Plan totaled $3.6 million at June 30, 2016 as shown in the following table.

(In thousands)	Restricted Stock Units	Restricted Stock Awards	Performance Stock Awards	Total
Unrecognized compensation cost at January 1, 2016	$ 1,483	$ —	$ —	$ 1,483
Equity grants	—	887	2,020	2,907
Equity grant forfeitures	(28)	(5)	—	(33)
Equity compensation expense	(336)	(124)	(286)	(746)
Unrecognized Compensation Cost at June 30, 2016	$ 1,119	$ 758	$ 1,734	$ 3,611

At June 30, 2016, the weighted average amortization period remaining for all of our equity awards was 2.4 years.

RSUs

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

At June 30, 2016 there were 65,002 RSUs outstanding, of which 3,312 vested and were distributed. There were no RSUs granted during the six months ended June 30, 2016. There were 1,350 RSUs forfeited during the six months ended June 30, 2016. Unvested RSUs at June 30, 2016 will vest at varying times through 2018.

Restricted Stock Awards

During the three and six months ended June 30, 2016, there were 5,952 and 53,589 shares of restricted stock, respectively, as well as dividend equivalent rights, granted under the Plan. There were 309 shares forfeited during the six months ended June 30, 2016. These shares generally vest over a three-year service period. Unvested restricted stock awards at June 30, 2016 will vest at varying times through 2019.

Performance-Based Restricted Stock Awards

During the three and six months ended June 30, 2016, there were 3,572 and 72,040 performance shares, respectively, as well as dividend equivalent rights, granted under the Plan. The performance period of this grant runs from January 1, 2016 through December 31, 2018. Pursuant to the performance share award agreement, each participant is eligible to vest in and receive shares of the Company's common stock based on the initial target number of shares granted multiplied by a percentage range between 0% and 200%. The percentage range is based on the attainment of a total shareholder return of the Company compared to certain specified peer groups of companies during the performance period. The fair value of the performance shares was estimated on the date of grant using a Monte Carlo Simulation model. Based on the grant date fair value, the Company expects to recognize $2.0 million in compensation expense on a straight-line basis over the requisite service period associated with this market-based grant.

NOTE 10 – INCOME TAXES

We intend to elect and qualify as a REIT for U.S. federal income tax purposes commencing with the taxable year beginning January 1, 2016. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute currently to our stockholders. Accordingly, no provision for federal income taxes has been included in the accompanying consolidated financial statements for the six months ended June 30, 2016 related to the REIT. However, FCPT's taxable REIT subsidiaries ("TRS") will generally be subject to federal, state, and local income taxes.

During the three months ended June 30, 2016, and 2015, our income tax expense was $50 thousand and a benefit of $30 thousand, respectively. During the six months ended June 30, 2016, and 2015, our income tax benefit was $80.5 million and $11 thousand, respectively. The income tax benefit recognized during the six months ended June 30, 2016 was principally the result of the reversal of deferred tax liabilities associated with activities no longer expected to be subject to federal taxation as a result of our satisfaction of all requirements including payment of the purging distribution and our intention to elect to be taxed as a REIT commencing with the year beginning January 1, 2016.

NOTE 11 – STOCKHOLDERS' EQUITY

Preferred Stock

At June 30, 2016 and December 31, 2015, the Company was authorized to issue 25,000,000 shares, $0.0001 par value per share of preferred stock. There were no shares issued and outstanding at June 30, 2016 or December 31, 2015.

Common Stock

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

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

On January 29, 2016, we paid a cash dividend of $8.5 million, representing our estimated earnings and profits that are required to be distributed for the period from November 10, 2015 to December 31, 2015. On March 2, 2016, we paid a $347.0 million dividend in cash and shares of common stock (the "Pre-Spin Dividend"), or $8.12 per share based on approximately 42.7 million shares outstanding as of January 7, 2016, representing our estimated share of earning and profits that are required to be distributed for the operating period prior to November 9, 2015. An aggregate of 17,085,566 additional shares of common stock were issued in connection with the Pre-Spin Dividend, and cash dividends paid related to the Pre-Spin Dividend totaled $69.5 million.

The Company reflects dividends, including those paid in shares, that would otherwise result in negative retained earnings as a charge to additional paid-in capital. As a result, approximately $69.5 million was reflected as a charge to additional paid-in capital related to the distribution above. For calculation of diluted earnings per share, these shares were assumed to be issued on January 7, 2016,

On April 15, 2016, we paid a cash dividend of $0.2425 per share, or $14.5 million. In June 2016, we declared a dividend of $0.2425 per share, which was paid in July 2016 to common stockholders of record as of June 30, 2016.

As of June 30, 2016, there were 59,885,881 shares of the Company's common stock issued and outstanding.

Earnings Per Share

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

(In thousands except for per share data)	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Average common shares outstanding – basic	59,830	54,103
Net effect of dilutive equity awards	14	6
Net effect of shares issued with respect to Pre-Spin Dividend	—	5,163
Average common shares outstanding – diluted	59,844	59,272
Net income	$14,801	$109,085
Basic net earnings per share	$0.25	$2.02
Diluted net earnings per share	$0.25	$1.84

For the three and six months ended June 30, 2016, the number of outstanding equity awards that were anti-dilutive totaled 232,968 and 201,190, respectively. Earnings per share is not applicable for the six months ended June 30, 2015, as all income or loss was contributed to the Predecessor.

Spin-Off

On November 9, 2015, in connection with the separation and spin-off of FCPT from Darden, Darden contributed to us 100% of the equity interest in entities that held the Properties and the Kerrow Restaurant Operating Business and the underlying properties or interests therein associated with the Kerrow Restaurant Operating Business. In exchange, we issued to Darden 42,741,995 shares of our common stock, par value $0.0001 per share and paid to Darden $315.0 million in cash, which we funded from the proceeds of our term loan borrowings under the Loan Agreement. Subsequently, Darden distributed the 42,741,995 shares of our common stock pro rata to holders of Darden common stock whereby each Darden shareholder received one share of FCPT 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 is intended to qualify as tax-free to Darden shareholders for U.S. federal income tax purposes, except for cash paid in lieu of fractional shares.

Darden obtained a private letter ruling from the IRS regarding the tax-free treatment of the Spin-Off. To preserve that tax-free treatment to Darden, for the two year period following the Spin-Off, we may be prohibited, except in specific circumstances, from taking certain actions, including: (1) entering into any transaction pursuant to which all or a portion of our stock would be acquired, whether by merger or otherwise, (2) issuing equity securities beyond certain thresholds, or (3) repurchasing our common

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

stock. In addition, we will be prohibited from taking or failing to take any other action that prevents the Spin-Off and related transactions from being tax-free. These restrictions may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize the value of our business. However, these restrictions are inapplicable in the event that the IRS has granted a favorable ruling to Darden or FCPT or in the event that Darden or FCPT has received an opinion from counsel that FCPT can take such actions under certain safe harbor exceptions without adversely affecting the tax-free status of the Spin-Off and related transactions.

NOTE 12 –FAIR VALUE MEASUREMENTS

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

June 30, 2016

(In thousands)	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative liabilities	$ —	$9,294	$ —	$9,294

December 31, 2015

(In thousands)	Level 1	Level 2	Level 3	Total
Assets				
Derivative assets	$ —	$165	$ —	$165
Liabilities				
Derivative liabilities	$ —	$477	$ —	$477

Derivative Financial Instruments

Currently, we use interest rate swaps to manage our interest rate risk associated with our note 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 AND COMBINED FINANCIAL STATEMENTS (continued)

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. We have determined that the significance of the impact of the credit valuation adjustments made to our derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of our derivatives held at June 30, 2016 and December 31, 2015 were classified as Level 2 of the fair value hierarchy.

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

Fair Value of Certain Financial Liabilities

June 30, 2016

(In thousands)	Carrying Value	Fair Value
Liabilities		
Note payable, excluding deferred offering costs	$400,000	$402,146

December 31, 2015

(In thousands)	Carrying Value	Fair Value
Liabilities		
Note payable, excluding deferred offering costs	$400,000	$400,146

The fair value of the note payable is determined using the present value of the contractual cash flows, discounted at the current market cost of debt.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Rentals

The annual future lease commitments under non-cancelable operating leases for each of the five years subsequent to June 30, 2016 and thereafter is as follows:

(In thousands)	June 30, 2016
2016 (six months)	$380
2017	515
2018	518
2019	407
2020	280
2021 and thereafter	97
Total Future Lease Commitments	$2,197

Rental expense was $142 thousand and $110 thousand for the three months ended June 30, 2016 and 2015, respectively. Rental expense was $277 thousand and $221 thousand for the six months ended June 30, 2016 and 2015, respectively.

Litigation

We are subject to private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. A number of these lawsuits, proceedings and claims may exist at any given time. These matters typically involve claims from guests, employee wage and hour claims and others related to operational issues common to the restaurant industry. We record our best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, we record the minimum estimated liability related to the lawsuits, proceedings or claims. While the

resolution of a lawsuit, proceeding or claim may have an impact on our financial results for the period in which it is resolved, we believe that the maximum liability related to probable lawsuits, proceedings and claims in which we are currently involved, individually and in the aggregate, will not have a material adverse effect on our financial position, results of operations or liquidity.

NOTE 14 – SEGMENTS

During the six months ended June 30, 2016, we operated in two segments: real estate operations and restaurant operations. Prior to the Spin-Off on November 9, 2015, we operated in one segment, restaurant operations. Our segments are based on our organizational and management structure, which aligns with how our results are monitored and performance is assessed. The accounting policies of the reportable segments are the same as those described in Note 2 - Summary of Significant Accounting Policies.

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

Three Months Ended June 30, 2016

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental income	$ 26,210	$ —	$ —	$26,210
Intercompany rental income	97	—	(97)	—
Restaurant revenues	—	4,701	—	4,701
Total revenues	26,307	4,701	(97)	30,911
Operating expenses:				
General and administrative	2,508	—	—	2,508
Depreciation and amortization	4,941	160	—	5,101
Restaurant expenses	—	4,690	(97)	4,593
Interest expense	3,858	—	—	3,858
Total operating expenses	11,307	4,850	(97)	16,060
Income before provision for income taxes	15,000	(149)	—	14,851
Provision for income taxes	—	(50)	—	(50)
Net Income	$ 15,000	$ (199)	$ —	$14,801

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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (continued)

Six Months Ended June 30, 2016

(In thousands)	Real Estate Operations	Restaurant Operations	Intercompany	Total
Revenues:				
Rental income	$ 52,463	$ —	$ —	$52,463
Intercompany rental income	194	—	(194)	—
Restaurant revenues	—	9,560	—	9,560
Total revenues	52,657	9,560	(194)	62,023
Operating expenses:				
General and administrative	5,826	—	—	5,826
Depreciation and amortization	9,964	324	—	10,288
Restaurant expenses	—	9,485	(194)	9,291
Interest expense	8,039	—	—	8,039
Total operating expenses	23,829	9,809	(194)	33,444
Income before provision for income taxes	28,828	(249)	—	28,579
Benefit from income taxes	80,409	97	—	80,506
Net Income	$ 109,237	$ (152)	$ —	$109,085

The following table presents supplemental information by segment at June 30, 2016.

(In thousands)	Real Estate Operations	Restaurant Operations	Total
Gross real estate investments	$1,380,682	$ 16,572	$1,397,254
Accumulated depreciation	(573,233)	(5,594)	(578,827)
Total real estate investments, net	$807,449	$ 10,978	$818,427
Cash and cash equivalents	$37,153	$ 1,579	$38,732
Total assets	$851,731	$ 12,969	$864,700
Notes payable, net of deferred financing costs	$393,098	$ —	$393,098
Deferred tax liabilities	$—	$ 206	$206

NOTE 15 – SUBSEQUENT EVENTS

The Company reviewed its subsequent events and transactions that have occurred after June 30, 2016, the date of the condensed consolidated balance sheet. In the third quarter of 2016, the Company invested $7.8 million in seven restaurant properties located in three states. These properties are 100% occupied under triple-net leases with a weighted average lease term of 17.2 years. The Company funded the acquisitions with cash on hand. The Company anticipates accounting for these acquisitions as asset acquisitions in accordance with GAAP. There were no contingent liabilities associated with these transactions at June 30, 2016.

There were no other reportable subsequent events or transactions.

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

Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Also, when Four Corners Property Trust, Inc. uses any of the words "anticipate," "assume," "believe," "estimate," "expect," "intend," or similar expressions, Four Corners Property Trust, Inc. is making forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are based upon present expectations and reasonable assumptions, actual results could differ materially from those set forth in the forward-looking statements. Certain factors that could cause actual results or events to differ materially from those anticipated or projected are described in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, as such factors may be updated from time to time in our periodic filings with the Securities and Exchange Commission. Given these uncertainties, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q or any document incorporated herein by reference. Four Corners Property Trust, Inc. undertakes no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

Overview

Four Corners Property Trust, Inc. ("FCPT") is a publicly-traded REIT that owns, acquires and leases restaurant and other retail properties on a triple-net basis. Our primary goal is to create long-term stockholder value through the payment of consistent cash dividends and the growth of our cash flow and asset base. To achieve this goal, we intend to pursue a business strategy focused on opportunistic acquisitions and asset and tenant diversification.

On November 9, 2015, in connection with the separation and spin-off of FCPT from Darden, Darden contributed to us 100% of the equity interest in entities that held 418 properties in which Darden operates restaurants, representing five of their brands (the "Properties"), and six LongHorn Steakhouse® restaurants located in the San Antonio, Texas area (the "Kerrow Restaurant Operating Business") and the underlying properties or interests therein associated with the Kerrow Operating Business. In exchange, we issued shares of our common stock which Darden distributed to its shareholders.

At June 30, 2016, we generate revenues primarily by leasing the Properties to Darden through triple-net lease arrangements under which Darden is primarily responsible for ongoing costs relating to the properties, including utilities, property taxes, insurance, common area maintenance charges, and maintenance and repair costs ("triple-net"). We also generate revenues by operating the Kerrow Restaurant Operating Business pursuant to franchise agreements with Darden. As of June 30, 2016, our undepreciated gross investment in real estate totaled approximately $1.4 billion.

In July and August 2016, the Company invested $7.8 million in seven restaurant properties located in three states. These properties are 100% occupied under triple-net leases with a weighted average lease term of 17.2 years and an average cash lease yield of 7.0%. The Company funded the acquisitions with cash on hand. The Company anticipates accounting for this acquisition as an asset acquisition in accordance with GAAP.

At June 30, 2016, we owned 424 properties within the continental United States, three of which are subject to ground leases. Of these properties, 418 were held for investment and leased to Darden under triple-net leases (the "Leases"). These 418 properties had an aggregate leasable area of approximately 3,287,000 square feet, were located in 44 states, and had a weighted average remaining non-cancelable lease term of 14.0 years before any lease renewals.

During the six months ended June 30, 2016, we believe we satisfied all requirements including payment of the purge distribution and we intend to elect to be taxed as a REIT for federal income tax purposes commencing with the taxable year beginning January 1, 2016.

Results of Operations

The following discussion includes the results of our operations for the three and six months ended June 30, 2016 and 2015 as summarized in the table below:

(In thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenues:				
Rental income	$26,210	—	$52,463	—
Restaurant revenues	4,701	4,624	9,560	9,514
Total revenues	30,911	4,624	62,023	9,514
Operating expenses:				
General and administrative	2,508	—	5,826	—
Depreciation and amortization	5,101	185	10,288	397
Restaurant expenses	4,593	4,335	9,291	8,848
Interest expense	3,858	—	8,039	—
Total expenses	16,060	4,520	33,444	9,245
Income before provision for income taxes	14,851	104	28,579	269
Benefit from (provision for) income taxes	(50)	30	80,506	11
Net Income	$14,801	$134	$109,085	$280

During the six months ended June 30, 2016, we operated in two segments, real estate operations and restaurant operations. Our real estate operations began on November 9, 2015; accordingly, no comparison to prior periods with respect to this segment is reported. Our rental income was generated from the rental streams associated with the Leases which we recognize on a straight-line basis to include the effects of base rent escalators.

General and administrative expense comprises 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.

Depreciation and amortization expense represents the depreciation on real estate investments, net which have estimated lives ranging from two to 49 years. Depreciation and amortization increased for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015, by approximately $4.92 million and $9.89 million, respectively, as a result of the Properties contributed to us in connection with the Spin-Off.

Interest Expense

On November 9, 2015, immediately preceding the consummation of the Spin-Off, we entered into a Revolving Credit and Term Loan Agreement (the “Loan Agreement”) that provides for borrowings of up to $750.0 million and consists of (1) a $400.0 million non-amortizing term loan that matures on November 9, 2020 and (2) a $350.0 million revolving credit facility that provides for loans and letters of credit. At June 30, 2016 and December 31, 2015, the weighted average interest rate on the term loan was 2.15% and 1.99%, respectively. As of June 30, 2016, there were no outstanding borrowings under the revolving credit facility and no outstanding letters of credit.

On November 9, 2015, we also entered into interest rate swaps with aggregate notional values totaling $400 million to hedge the variability associated with the Loan Agreement, fixing our gross interest expense at 3.06%. These swaps are accounted for as cash flow hedges with all interest expense recorded as a component of net income and other valuation changes recorded as a component of other comprehensive income. At June 30, 2016 the average interest rate on the term loan including the cost of the swap agreements and the amortization of upfront costs and excluding hedge ineffectiveness was 3.5%.

Income Taxes

During the three months ended June 30, 2016, and 2015, our income tax expense was $50 thousand and a benefit of $30 thousand, respectively. During the six months ended June 30, 2016, and 2015, our income tax benefit was $80.5 million and $11 thousand, respectively. The income tax benefit recognized during the six months ended June 30, 2016 was the result of the reversal of deferred tax liabilities associated with activities no longer expected to be subject to federal taxation as a result of our intention to elect to be taxed as a REIT commencing with the year beginning January 1, 2016.

Restaurant Operations

The following table sets forth restaurant revenues and expenses data for the six operating restaurants and restaurant expenses as a percent of revenues for the periods indicated.

	Three Months Ended June 30,					
	2016			2015		
(Dollars in thousands)	$	% of Revenues		$	% of Revenues	
Restaurant revenues	$4,701	100.0	%	$4,624	100.0	%
Restaurant expenses:						
Food and beverage	1,838	39.1	%	1,931	41.8	%
Restaurant labor	1,459	31.0	%	1,147	24.8	%
Other restaurant expenses	1,393	29.6	%	1,257	27.2	%
Total restaurant expenses	4,690	99.8	%	4,335	93.8	%
Restaurant Operations, Net	$11			$289		

	Six Months Ended June 30,					
	2016			2015		
(Dollars in thousands)	$	% of Revenues		$	% of Revenues	
Restaurant revenues	$9,560	100.0	%	$9,514	100.0	%
Restaurant expenses:						
Food and beverage	3,821	40.0	%	3,882	40.8	%
Restaurant labor	2,714	28.4	%	2,440	25.6	%
Other restaurant expenses	2,950	30.9	%	2,526	26.6	%
Total restaurant expenses	9,485	99.2	%	8,848	93.0	%
Restaurant Operations, Net	$75			$666		

Three and Six Months Ended June 30, 2016 versus Three and Six Months Ended June 30, 2015

Restaurant revenues increased approximately $77 thousand, or 1.67%, in the second quarter of 2016 compared to the second quarter of 2015, and increased by $46 thousand, or 0.48%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases were due principally to an increase in the per person average sales year over year. Average revenue per restaurant remained steady at $0.8 million and $1.6 million for the three and six months ended June 30, 2016, respectively.

Total restaurant expenses increased by $355 thousand, or 8.19%, in the second quarter of 2016 compared to the second quarter of 2015, and increased by $637 thousand, or 7.20%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases in restaurant operating expenses were primarily due to increased managerial headcount and one-time charges related to the Spin-Off to enable independent restaurant operations.

Food and beverage costs decreased by $93 thousand, or 4.8%, in the second quarter of 2016 compared to the second quarter of 2015, and decreased by $61 thousand, or 1.5%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The decreases in food and beverage costs were primarily due to decreases in beef and fish costs in 2016.

Restaurant labor costs increased $312 thousand, or 27.2%, in the second quarter of 2016 compared to the second quarter of 2015, and increased by $274 thousand, or 11.2%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases in restaurant labor costs were primarily due to increases in headcount and overall compensation costs, including incentive compensation and benefit costs.

Other restaurant expenses (which include utilities, common area maintenance charges, repairs and maintenance, credit card fees, lease expense, property tax, workers' compensation, other restaurant-level operating expenses and administrative costs) increased $136 thousand, or 10.8%, in the second quarter of 2016, compared to the second quarter of 2015, and increased by $424 thousand, or 16.8%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases in restaurant expenses are primarily due to consulting and technology expenses associated with establishing independent restaurant operations.

Critical Accounting Policies

The preparation of FCPT's consolidated and combined financial statements in conformance with accounting principles generally accepted in the United States of America requires management to make estimates on assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as other disclosures in the financial statements. On an ongoing basis, management evaluates its estimates and assumptions   however, actual results may differ from these estimates and assumptions, which in turn could have a material impact on our financial statements. A summary of FCPT's critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2015 in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies." Management believes those critical accounting policies, among others, affect our more significant estimates and assumptions used in the preparation of our consolidated and combined 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 and combined financial statements, included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Liquidity and Financial Condition

At June 30, 2016, we held $38.7 million of cash and cash equivalents. Total capital included $435.8 million of equity capital and $400.0 million associated with borrowings under the term loan of our Loan Agreement.

On November 9, 2015, immediately preceding the consummation of the Spin-Off, we entered into a $750 million Revolving Credit and Term Loan Agreement which consists of (1) a $400.0 million non-amortizing term loan that matures on November 9, 2020 and (2) a $350.0 million revolving credit facility that provides for loans and letters of credits and matures on November 9, 2019. The revolving credit facility provides for a letter of credit sub-limit of $45.0 million.

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, borrowings under our $350 million revolving credit facility. As of June 30, 2016 and August 5, 2016, we had $400.0 million outstanding on the term loan and no amounts outstanding under the revolving credit facility.

On a long-term basis, our principal demands for funds include financing of property acquisitions and scheduled debt maturities. We plan to meet our long-term capital needs by issuing debt or equity securities or by obtaining asset level financing, subject to market conditions. In addition, we may issue common stock to permanently finance properties that were financed on an intermediate

basis by our revolving credit facility or other indebtedness. In the future, we may also acquire properties by issuing partnership interests of our Operating Partnership in exchange for property owned by third parties which would be redeemable for cash or shares of our common stock.

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

Because the properties in our portfolio are generally leased to tenants under triple-net leases, where the tenant is responsible for property operating costs and expenses, our exposure to rising property operating costs due to inflation is mitigated. Interest rates and other factors, such as occupancy, rental rate and the financial condition of our tenants, influence our performance more than 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, 2015, as filed with the SEC.

Off-Balance Sheet Arrangements

At June 30, 2016 there were no off-balance sheet arrangements.

Supplemental Financial Measures

The following table presents a reconciliation of GAAP net income to NARIET funds from operations ("FFO") and Adjusted funds from operations ("AFFO") for the three and six months ended June 30, 2016.

(In thousands, except share data)	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Net income attributable to stockholders in accordance with GAAP	$ 14,801	$ 109,085
Depreciation and amortization	5,101	10,288
Deferred tax benefit from REIT election	—	(80,409)
NAREIT funds from operations (FFO)	$ 19,902	$ 38,964
Real estate acquisition costs	—	—
Non-cash stock-based compensation	429	742
Non-cash amortization of deferred financing costs	398	796
Other non-cash interest expense	55	435
Straight-line rent	(2,595)	(5,191)
Adjusted funds from operations (AFFO)	$ 18,189	$ 35,746
Fully diluted shares outstanding	59,844,059	59,271,807
FFO per diluted share	$ 0.33	$ 0.66
AFFO per diluted share	$ 0.30	$ 0.60

Non-GAAP Definitions

Management believes that certain non-GAAP financial measures included above 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 as a supplement to net income, and to cash flows from operating, investing or financing activities computed in accordance with GAAP as a measure of profitability and/or liquidity.

Funds from Operations ("FFO") is a supplemental measure of our performance which should be considered along with, but not as an alternative to, net income and cash provided by operating activities as a measure of operating performance and liquidity. We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (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.

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information concerning market risk is incorporated herein by reference to Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, 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, 2015.

Item 4. Controls and Procedures.

We have established and maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

Our management, with participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2016. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2016.

In the second quarter of 2016, the Company enhanced its documentation of certain control activities. The Company has also formalized its policy for the retention of documentation supporting the performance and review of these controls. There have been no changes in our internal control over financial reporting during the second quarter of 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes to the risk factors as disclosed in the section entitled “Risk Factors” beginning on page 11 of our Annual Report on Form 10-K for the year ended December 31, 2015 and filed with the SEC.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

SIGNATURE

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

FOUR CORNERS PROPERTY TRUST, INC.

Dated:	August 4, 2016	By:	/s/ William H. Lenehan
			William H. Lenehan
			President and Chief Executive Officer
			(Principal Executive Officer)
Dated:	August 4, 2016	By:	/s/ Gerald R. Morgan
			Gerald R. Morgan
			Chief Financial Officer
			(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

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