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Four Corners Property Trust, Inc.
Form 10-K
February 20, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2018

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission File Number: 1-37538

FOUR CORNERS PROPERTY TRUST, INC.

(Exact name of Registrant as specified in its charter)

Maryland

47-4456296

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

591 Redwood Highway, Suite 1150, Mill Valley, California 94941

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (415) 965-8030

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange

Common Stock, \$0.0001 par value on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark if the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Non-accelerated filer Emerging growth company

Accelerated filer Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant, computed by reference to the closing sales price of such shares on the New York Stock Exchange as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately: \$1,543,211,886.

Number of shares of Common Stock, par value \$0.0001, outstanding as of February 19, 2019: 68,348,888

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for its Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission no later than April 30, 2019 are incorporated by reference into Part III of this Report.

FOUR CORNERS PROPERTY TRUST, INC.
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PART I

Forward-Looking Statements

Statements contained in this Annual Report on Form 10-K, 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, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (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 “Item 1A. Risk Factors.” of this Annual Report on Form 10-K. Given these uncertainties, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Annual Report on Form 10-K 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 Annual Report on Form 10-K.

Item 1. Business.

Unless the context indicates otherwise, all references to “FCPT,” the “Company,” “we,” “our” or “us” include Four Corners Property Trust, Inc. and all of its consolidated subsidiaries.

History

We were 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 net basis, for use in the restaurant and related food service industries. On November 9, 2015, Darden completed a spin-off of FCPT pursuant to which Darden contributed to us (i) 100% of the equity interest in entities that owned 418 properties in which Darden operates Olive Garden, LongHorn Steakhouse and other branded restaurants (the “Properties” or “Property”) and (ii) six LongHorn Steakhouse restaurants, including the properties or interests associated with such restaurants, located in the San Antonio, Texas area (the “Kerrow Restaurant Operating Business”). In exchange, we issued to Darden all of our common stock and paid to Darden \$315.0 million in cash. Subsequently, Darden distributed all of our outstanding shares of common stock pro rata to holders of Darden common stock whereby each Darden shareholder received one share of our common stock for every three shares of Darden common stock held at the close of business on the record date as well as cash in lieu of any fractional shares of our common stock which they would have otherwise received (the “Spin-Off”).

Business Overview

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

Our revenues are primarily generated by leasing properties to Darden and other tenants through net lease arrangements under which the tenants are primarily responsible for ongoing costs relating to the properties, including utilities, property taxes, insurance, common area maintenance charges, and maintenance and repair costs. We focus on income producing properties leased to high quality tenants in major markets across the United States. We also generate revenues by operating the Kerrow Restaurant Operating Business pursuant to franchise agreements with Darden. In addition to managing our existing properties, our strategy includes investing in additional restaurant and food service real estate properties to grow and diversify our existing restaurant portfolio. We expect this acquisition strategy will decrease our

reliance on Darden over time. We intend to purchase properties that are well located, occupied by durable concepts, with creditworthy tenants whose operating cash flows are expected to meaningfully exceed their lease payments to us. We seek to improve the probability of successful tenant renewal at the end of initial lease terms by acquiring properties that have high levels of operator profitability compared to rent payments and have absolute rent levels that generally reflect market rates.

In 2018, FCPT engaged in various real estate transactions for a total investment of \$268.3 million, including capitalized transaction costs. Pursuant to these transactions, we acquired an additional 97 properties, aggregating 543 thousand square feet, and representing twenty brands, including Chili's Grill & Bar, Red Lobster, Buffalo Wild Wings, Starbucks, Chick-fil-A, McDonald's, Taco Bell, Texas Roadhouse, and BJ's Restaurants. During the same period, FCPT sold two properties for \$21.1 million, net of transaction costs. The proceeds from the sales were used for subsequent acquisitions via 1031 exchange transactions.

As of December 31, 2018, our wholly-owned lease portfolio had the following characteristics:

- 610 free-standing properties located in 45 states and representing an aggregate leasable area of 4.1 million square feet;
- 99.9% occupancy (based on leasable square footage);
- An average remaining lease term of 12.2 years (weighted by annualized base rent);
- An average annual rent escalation of 1.5% through December 31, 2028 (weighted by annualized base rent); and
- 77.2% investment-grade tenancy (weighted by annualized base rent).

Segments

We operate in two segments, real estate operations and restaurant operations. Our segments are based on our organizational and management structure, which aligns with how our results are monitored and performance is assessed.

Our real estate operations segment consists of rental revenues primarily generated by leasing restaurant properties to tenants through net lease arrangements under which the tenant is primarily responsible for ongoing costs relating to the properties. Our real estate operations segment also includes expenses associated with continuing efforts to invest in additional restaurant and food service real estate properties and our corporate operating expenses.

Our restaurant operations segment is conducted through a taxable REIT subsidiary ("TRS") and consists of our Kerrow Restaurant Operating Business. The associated sales revenues, restaurant expenses and overhead on Kerrow Restaurant Operating Business's six buildings and equipment comprise our restaurant operations.

Our shares of common stock are listed on the New York Stock Exchange under the ticker symbol "FCPT".

Our executive offices are located at 591 Redwood Highway, Suite 1150, Mill Valley, California 94941, and our telephone number is (415) 965-8030.

Competitive Advantage

We believe that we have significant competitive advantages that support our core business of owning and leasing restaurant and food-service related properties as further outlined below.

Leading Nationwide REIT Focused on Restaurant Properties

We are focused on the ownership of properties used in the restaurant industry and have tailored our business strategy to address the needs of restaurant operators. We believe our scale, national reach, restaurant operations experience, and efficient lease structuring will help us achieve operational efficiencies and support future growth opportunities. In contrast to the majority of existing net-lease REITs that are diversified by retail industry and property type, we believe that our focus and expertise in the restaurant sector will generate data and insights to better support effective investment and asset management decisions.

Large Addressable Market Potential in US Food Service

By virtue of its large scale, we believe that the U.S. restaurant industry offers a sizable pool of attractive property acquisition targets across different types of restaurant properties, including quick service, take-out, casual dining, fast casual, and fine dining, to enable diversified growth for us. Our addressable market of restaurant real estate is substantial despite our narrow focus.

According to the Census Bureau and the Bureau of Economic Data, the food service industry had over \$678 billion in sales in 2017, of which Quick Service Restaurants (“QSR”), Quick Casual Restaurants, and Casual Dining Restaurants (“CDR”) comprise approximately \$485 billion combined. We plan to continue to focus on acquisitions that shift our portfolio to be more reflective of the national restaurant landscape, targeting QSR and some casual dining concepts, and with less focus on Italian and steak restaurants given the current portfolio concentration of Olive Garden and LongHorn Steakhouse restaurants.

Furthermore, implementation of “asset light” strategies by restaurant companies may provide landlords like us an opportunity to enter into sale-leaseback transactions with franchisees or corporate-operated restaurants for their existing properties and to finance future restaurant development by these restaurant companies. We also believe there may be other attractive opportunities for growth outside the traditional restaurant sector. This may include one or more of the following: food service distribution facilities, cold storage facilities, retail properties, including non-restaurant properties located in-line with other restaurants, and other net leased real estate.

Competitively Positioned to Capitalize on Expansion Opportunities

We believe there is a large market opportunity to acquire additional restaurant properties and that a number of restaurant operators would be willing to monetize their real estate holdings while continuing to operate their existing core businesses through sale-leaseback transactions with an unrelated party not perceived to be a competitor, such as us. These restaurant operators could use the proceeds from the sale of their real estate assets for several different business purposes, including (i) reducing bank loans and lines of credit, (ii) reinvestment in existing operations, or (iii) for new business initiatives including opening new locations or pursuing acquisitions. We may also provide such restaurant operators with capital for expansion opportunities that they may not otherwise be in a position to pursue or at a cost of capital that is more attractive to the restaurant or retail operators than they may be able to receive through traditional debt financing arrangements.

Geographically Diverse Asset Portfolio

Properties in our leasing portfolio are located in 45 different states across the continental United States. The leasing portfolio properties in any one state do not account for more than 13% of our total rental revenue. We believe this geographic diversification will limit the effect of changes in any one market on our overall performance.

Financially Secure Principal Tenant

Darden is currently our largest tenant representing approximately 77% of our tenant base by annualized base rent as of December 31, 2018. Darden owns and operates seven nationally recognized brands, including the five brands that are represented among the properties we lease to Darden: Olive Garden®, LongHorn Steakhouse®, Bahama Breeze®, Seasons 52® and Wildfish Seafood Grille®. Darden is investment grade rated at BBB/BBB/Baa2 (Fitch/S&P/Moody’s) and its liquidity position, leverage position and ability to generate significant free cash flow should provide it with the ability to pay the annual lease obligations to FCPT for the foreseeable future. Darden is subject to SEC reporting requirements, which provide ongoing transparency regarding its operating and financial performance. Darden’s filings with the SEC can be found on the SEC’s internet website at www.sec.gov. We do not intend the SEC’s website to be an active link or to otherwise incorporate the information contained on its website (including Darden’s filings with the SEC) into this report or other filings with the SEC.

Long-Term, Net Lease Structure

Our properties are leased to our tenants on a net lease basis with a weighted average remaining lease term of approximately 12.2 years before any renewals and an average annual rent escalation of 1.5% through December 31, 2028 (weighted by annualized base rent), thereby providing a long-term, stable income stream. Under the leases, the tenant is responsible for maintaining the properties in accordance with prudent industry practice and in compliance with all federal and state standards. The maintenance responsibilities include, among others, maintaining the building, building systems including roofing systems and other improvements. In addition to maintenance requirements, the tenant is also generally responsible for insurance required to be carried under the leases, taxes levied on or with respect to the properties, payment of common area maintenance charges and all utilities and other services necessary or appropriate for the properties and the business conducted on the properties. At the option of the tenant, the leases will generally allow extensions for a certain number of multi-year renewal terms beyond the initial term and the tenant can elect which of the properties then subject to the leases to renew. The number and duration of the renewal terms for any given property may vary, however, based on the initial term of the relevant lease and other factors.

Brand Selection

We generally focus on nationally-recognized brands with hundreds of locations across the country. We believe this provides additional credit support in that our tenants' restaurant concepts will stay viable in the long-term even if there are changes in their corporate ownership or structure.

Management Team with Extensive Real Estate and Net Lease Experience

FCPT has a highly regarded management team with extensive retail net lease and public market REIT experience. The team is led by Bill Lenehan, President and Chief Executive Officer; Gerry Morgan, Chief Financial Officer; and James Brat, General Counsel. Prior to joining FCPT, Mr. Lenehan was on the Darden Board of Directors and chair of its Real Estate and Finance Committee.

Our Business Objectives and Strategy

Our primary goal is to create long-term stockholder value by executing our investment objectives to maximize the value of our assets, to acquire assets with growth and diversification opportunities due to favorable lease structures and attractive submarket demographics, and to provide attractive and growing quarterly cash dividends. We do not currently have a fixed schedule of the number of acquisitions we intend to make over a particular time period, but rather, we intend to pursue those acquisitions that meet our investing and financing objectives where we can earn a return above our weighted-average cost of capital adjusted to reflect counterparty risk.

The key components of our business strategy, beyond managing our properties in accordance with our leases, include:

Acquire Additional Restaurant Properties: We plan to continue to focus on growing and diversifying our property portfolio by acquiring restaurant properties in the QSR and some CDR segments. These transactions may take many forms including, sale-leaseback transactions with restaurant operators, one-off acquisitions or acquisitions of portfolios of properties, which may include non-restaurant properties, from other REITs and other public and private real estate owners. We will employ a disciplined, opportunistic acquisition strategy and price transactions appropriately based on, among other things, the mix of assets acquired, length and terms of the lease, location and submarket attractiveness, and the credit worthiness of the existing tenant.

Acquire Additional Outparcel Properties: We plan to continue to seek out opportunities to leverage our experience in past transactions and acquire additional outparcel properties from mall and shopping center companies, providing the mall and shopping center companies with capital to expand or reinvest into their existing operations.

Re-lease Properties: Over time we will face re-tenanting risk and opportunity. If our tenants elect to cease operations at any of our properties, we will need to find a replacement tenant at the end of the lease term or earlier if a tenant abandons one of our properties prior to the end of the lease term. We plan to use leasing expertise and relationships developed through our national operations to replace tenants under any expiring or abandoned leases.

Develop New Tenant Relationships: Our focus in the restaurant and related food service industry will allow us to cultivate new relationships with potential tenants and restaurant operators in order to expand the mix of tenants operating our properties and, in doing so, reduce our concentration with Darden.

Maintain Balance Sheet Strength and Liquidity: We intend to maintain a capital structure that provides the resources and financial flexibility to support the growth of our business. Our principal sources of liquidity will be our cash generated through operations, our revolving credit facility which has an undrawn capacity as of February 19, 2019 of \$250 million, our ability to access the public equity markets, and our ability to access bank and private placement debt markets. Through disciplined capital spending and working capital management, we intend to maximize our cash flows and maintain our targeted balance sheet and leverage ratios.

Operate the Kerrow Restaurant Operating Business: We operate the Kerrow Restaurant Operating Business through Kerrow Holdings, LLC ("Kerrow"). Although we intend to derive the majority of our revenue from leasing properties on a net basis to restaurant and retail operators, the Kerrow Restaurant Operating Business will provide us with a diversified revenue stream and equip us with the expertise to better analyze other restaurant properties that could serve as expansion opportunities.

Investment and Financing Policies

Our investment objectives are to increase cash flow, provide quarterly cash dividends, maximize the value of our assets and acquire assets with cash flow growth potential. We intend to continue to invest primarily in restaurant properties. However, over time, we believe we have the potential to diversify into other food service and related retail property types beyond the restaurant industry.

We expect that future investments in properties, including any improvements or renovations of currently owned or newly-acquired restaurant properties, will be financed, in whole or in part, with cash flow from our operations, borrowings under our \$250 million revolving credit facility, or the proceeds from issuances of common stock, preferred stock, debt or other securities. Our investment and financing policies and objectives are subject to change periodically at the discretion of our Board of Directors without a vote of stockholders. We also have an effective shelf registration statement on file with the SEC under which we may issue equity financing through the instruments and on the terms most attractive to us at such time. In December 2016, the Company entered into an “At-the-Market” (“ATM”) sales agreement under which it can sell common stock with an aggregate value of up to \$150 million through broker-dealers. In January 2017, we achieved an investment grade rating of BBB- from Fitch Ratings.

Flexible UPREIT Structure

We operate in what is commonly referred to as an UPREIT structure, in which substantially all of our properties and assets are held through FCPT OP. It is managed by FCPT GP, which accordingly controls the management and decisions of FCPT OP. Conducting business through FCPT OP allows us flexibility in the manner in which we structure and acquire properties. In particular, an UPREIT structure enables us to acquire additional properties from sellers in exchange for limited partnership units in FCPT OP. As a result, this structure potentially may facilitate our acquisition of assets in a more efficient manner and may allow us to acquire assets that the owner would otherwise be unwilling to sell to us.

Our Portfolio

At December 31, 2018, we owned 616 properties, all within the continental United States. Of these properties, 610 were held for investment, with an aggregate leasable area of approximately 4.1 million square feet, were located in 45 states, and had a weighted average remaining lease term of 12.2 years before any lease renewals. The remaining six properties, representing the Kerrow Restaurant Operating Business, are operated by Kerrow subject to franchise agreements with Darden (“Franchise Agreements”). Three of these restaurants are subject to ground leases.

The following table summarizes the rental properties by brand as of December 31, 2018:

Brand	Number of FCPT Properties	Total Square Feet (000s)	Annual Cash Base Rent \$(000s)	Avg. % Total Rent		Tenant EBITDAR Coverage ⁽²⁾	Lease Term Remaining (Yrs) ⁽²⁾
				Cash Base Rent ⁽¹⁾	Per Square Foot (\$)		
Olive Garden	299	2,554	\$72,539	57.8	%\$ 28	5.2x	11.7
Longhorn Steakhouse	105	585	19,712	15.7	%34	4.4x	10.7
Other Brands - non-Darden	193	881	29,205	23.2	%33	3.1x	14.9
Other Brands - Darden	13	120	4,096	3.3	%34	4.0x	9.9
Total	610	4,140	\$125,552	100.0	%\$ 30	4.6x	12.2

(1) Current scheduled minimum contractual rent as of December 31, 2018.

EBITDAR Coverage is calculated by dividing our tenants estimated trailing 12-month EBITDAR by annual contractual cash rent paid to FCPT. EBITDAR is defined as earnings before interest, income taxes, depreciation, (2) amortization, and rent. EBITDAR is derived from the most recent data from tenants who disclose this information, representing approximately 96% of our run-rate rental income. FCPT does not independently verify financial information provided by its tenants.

(3) Average Lease Expiration Date (assuming no renewals) is defined as the average ending date of the lease if there is no renewal of the initial term of the lease, weighted by cash base rent.

The following table summarizes the diversification of FCPT's leased portfolio by state as of December 31, 2018:

State	# of Properties	% of Annual Base Rent
Texas	64	12.3%
Florida	59	11.4%
Georgia	45	7.1%
Ohio	45	7.0%
Michigan	31	4.1%
Tennessee	27	3.8%
Indiana	33	3.6%
California	14	3.0%
Pennsylvania	16	3.0%
Illinois	23	2.9%
North Carolina	18	2.8%
Virginia	16	2.4%
Mississippi	16	2.3%
Maryland	13	2.2%
New York	11	2.0%
South Carolina	12	2.0%
Wisconsin	16	2.0%
Kentucky	11	1.9%
Arizona	11	1.8%
Iowa	14	1.8%
Alabama	13	1.8%
Minnesota	9	1.7%
Nevada	8	1.7%
Colorado	10	1.6%
Oklahoma	10	1.6%
Louisiana	8	1.4%
West Virginia	6	1.2%
Arkansas	7	1.1%
Kansas	5	1.1%
16 other states (none greater than 1%)	39	7.3%
Total	610	100.0%

Leases with Darden

The estimated annual cash rent based on current rates for the leases in place with Darden is approximately \$96.3 million, with average annual rent escalations of 1.5% each year. Darden also entered into guaranties, pursuant to which it guarantied the obligations of the tenants under substantially all of the leases entered into in respect of the Properties. The Properties are leased to one or more of Darden's operating subsidiaries pursuant to the leases, which are net leases. The leases provide for an average remaining initial term of approximately 11.4 years as of December 31, 2018, with no purchase options provided that Darden will have a right of first offer with respect to our sale of any property, if there is no default under the lease, and we will be prohibited from selling any Properties to (i) any nationally recognized casual or fine dining brand restaurant or entity operating the same or (ii) any other regionally recognized casual or fine dining brand restaurant or entity operating the same, with 25 or more units. At the option of Darden, the leases will generally allow extensions for a certain number of renewal terms of five years each beyond the initial term and Darden can elect which of our properties then subject to the leases to renew. The number and duration of the renewal terms for any given Property may vary, however, based on the initial term of the relevant lease and other factors.

Darden is currently the source of a majority of our revenues, and its financial condition and ability and willingness to satisfy its obligations under the leases and its willingness to renew the leases upon expiration of the initial base term thereof significantly impacts our revenues and our ability to service our indebtedness and make distributions to our

stockholders. There can be no

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assurance that Darden will have sufficient assets, income and access to financing to enable it to satisfy its obligations under its leases with us, and any inability or unwillingness on its part to do so would have a material adverse effect on our business, financial condition, results of operations and liquidity, on our ability to service our indebtedness and other obligations and on our ability to pay dividends to our shareholders. We also cannot assure you that Darden will elect to renew the lease arrangements with us upon expiration of the initial base terms or any renewal terms thereof or, if such leases are not renewed, that we can re-market the affected properties on the same or better terms. See “Risk Factors - Risks Related to Our Business - We are dependent on our major tenants successfully operating their businesses, and a failure to do so could have a material adverse effect on our business, financial position or results of operations.”

Franchise Agreements

Pursuant to the Franchise Agreements, Darden grants the right and license to our subsidiary, Kerrow, to operate the Kerrow Restaurant Operating Business. The Franchise Agreements include, among other things, a license to display trademarks, utilize trade secrets and purchase proprietary products from Darden. Other services to be included pursuant to the Franchise Agreements are marketing services, training and access to certain LongHorn® operating procedures. The Franchise Agreements also contain provisions under which Darden may provide certain technical support for the Kerrow Restaurant Operating Business. The fees and conditions of these franchising services are on terms comparable to similar franchising services negotiated on an arm’s length basis and consistent with industry standard provisions.

Competition

We operate in a highly competitive market and face competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, restaurant and retail operators, lenders and other investors, some of whom are significantly larger and have greater resources and lower costs of capital. These institutions may accept greater risk or lower returns, allowing them to offer more attractive terms to prospective tenants or for the acquisition of restaurant properties. Our restaurant operations also face active competition with national and regional chains and locally-owned restaurants for guests, management and hourly personnel.

Governmental Regulations Affecting Properties

Property Environmental Considerations

As an owner and operator of real property, we are subject to various federal, state and local environmental, health and safety laws and regulations. Although we do not operate or manage most of our properties, we may be held primarily or jointly and severally liable for costs relating to the investigation and clean-up of any of our current or former properties at or from which there has been a release or threatened release of hazardous material, as well as other affected properties, regardless of whether we knew of or caused the contamination.

In addition to these costs, which are typically not limited by law or regulation and could exceed the property’s value, we or our tenants could be subject to other liabilities, including governmental penalties for violation of environmental, health and safety laws, liabilities for injuries to persons for exposure to hazardous materials, and damages to property or natural resources. Furthermore, some environmental laws can create a lien on the contaminated site in favor of the government for damages and the costs the government incurs in connection with such contamination or can restrict the manner in which a property may be used because of contamination. We also could be liable for the costs of remediating contamination at third party sites, e.g., landfills, where we send waste for disposal without regard to whether we comply with environmental laws in doing so.

Although the leases require our tenants to indemnify us for environmental liabilities, and although we intend to require our other operators and tenants to undertake to indemnify us for certain environmental liabilities, including environmental liabilities they cause, the amount of such liabilities could exceed the financial ability of Darden, or such other tenant or operator to indemnify us. The presence of contamination or the failure to remediate contamination may adversely affect our ability to sell, develop or lease the real estate or to borrow using the real estate as collateral.

As of February 19, 2019, we have not been notified by any governmental authority of, nor is management aware of, any non-compliance or liability with respect to environmental laws that management believes would have a material adverse effect on our business, financial position or results of operations.

Americans with Disabilities Act of 1990

The properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990 and similar state and local laws and regulations (collectively the “ADA”). Investigation of a property may reveal non-compliance with the ADA. The tenant has the primary responsibility for complying with the ADA, but we may incur costs if the tenant does not comply. As of February 18, 2019, we have not been notified by any governmental authority of, nor is management aware of, any non-compliance with the ADA that management believes would have a material adverse effect on our business, financial position or results of operations.

Other Regulations

State and local fire, life-safety and similar entities regulate the use of the properties. The tenant has the primary responsibility for complying with regulations but failure to comply could result in fines by governmental authorities, awards of damages to private litigants, or restrictions to conduct business on such properties.

Insurance

Our current lease agreements generally require, and new lease agreements that we enter are expected to require, that our tenants maintain all customary lines of insurance on our properties and their operations, including comprehensive insurance and hazard insurance. The tenants under the Leases may have the ability to self-insure or use a captive provider with respect to its insurance obligations. We believe that the amount and scope of insurance coverage provided by our policies and the policies maintained by our tenants are customary for similarly situated companies in our industry. However, we cannot make any assurances that Darden or any other tenants in the future will maintain the required insurance coverages, and the failure by any of them to do so could have a material adverse effect on us.

Employees

As of February 1, 2019, we had 361 employees, of which 345 were employed at our Kerrow Restaurant Operating Business. None of these employees are represented by a labor union.

Available Information

All filings we make with the Securities and Exchange Commission (the “SEC”), including this Annual Report on Form 10-K, our quarterly reports on Form 10-Q, and our current reports on Form 8-K, and any amendments to those reports are available for free on our website, www.fcpt.com, as soon as reasonably practicable after they are filed with, or furnished to, the SEC. We do not intend our website to be an active link or to otherwise incorporate the information contained on our website into this report or other filings with the SEC. Our filings can also be obtained for free on the SEC’s Internet website at www.sec.gov. We are providing our website address solely for the information of investors.

Item 1A. Risk Factors.

Various risks and uncertainties could affect our business. Any of the risks described below or elsewhere in this report or our other filings with the SEC could have a material impact on our business, financial condition or results of operations. It is not possible to predict or identify all risk factors. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations.

Risks Related to Our Business

Risks related to real estate ownership could reduce the value of our properties, which could materially and adversely affect us.

Our core business is the ownership of real estate that is leased to tenants on a net basis. Accordingly, our performance is subject to risks inherent to the ownership of real estate, including:

- inability to collect rent from tenants due to financial hardship, including bankruptcy;
- changes in consumer trends and preferences that reduce demand for the products or services of our tenants;
- inability to lease at or above the current rental rates, or at all, or sell properties upon expiration or termination of existing leases;
- needing to make capital expenditures to renovate vacant properties;
- environmental risks related to the presence of hazardous or toxic substances or materials on our properties;
- subjectivity of real estate valuations and changes in such valuations over time;
- illiquid nature of real estate compared to most other financial assets;
- changes in laws and regulations, including those governing real estate usage and zoning;
- changes in interest rates and the availability of financing; and
- changes in the general economic and business climate.

The occurrence of any of the risks described above may cause the value of our real estate to decline, which could materially and adversely affect us.

We are dependent on Darden to make payments to us and fulfill its obligations under its leases, as well as to provide services to us under the Franchise Agreements, and an event that materially and adversely affects Darden's business, financial position or results of operations could materially and adversely affect our business, financial position or results of operations.

Currently, Darden is our primary lessee in our lease portfolio and, therefore, is the source of a majority of our revenues. Additionally, because Darden's leases with us are net leases, we depend on Darden to pay all insurance, taxes, utilities, common area maintenance charges, maintenance and repair expenses and to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with its business, including any environmental liabilities. There can be no assurance that Darden will have sufficient assets, income and access to financing to enable it to satisfy its payment obligations to us under its leases. The inability or unwillingness of Darden to meet its rent obligations to us under any of its leases could materially adversely affect our business, financial position or results of operations, including our ability to pay dividends to our stockholders as required to maintain our status as a REIT. The inability of Darden to satisfy its other obligations under its leases with us, such as the payment of insurance, taxes and utilities could materially and adversely affect the condition of our properties. Since Darden Restaurants, Inc. is a holding company, it is dependent to an extent on distributions from its direct and indirect subsidiaries in order to satisfy the payment obligations under its leases with us, and the ability of Darden to make such distributions may be adversely impacted in the event of the insolvency or bankruptcy of such entities or by covenants in its debt agreements or otherwise that restrict the amount of the distributions that may be made by such entities. For these reasons, if Darden were to experience a material and adverse effect on its business, financial position or results of operations, our business, financial position or results of operations could also be materially and adversely affected.

Due to our dependence on rental payments from Darden, we may be limited in our ability to enforce our rights under, or to terminate, our leases with Darden. Failure by Darden to comply with the terms of its leases with us could require us to find other lessees for some or all of the properties and there could be a decrease or cessation of rental payments by Darden.

There is no assurance that we would be able to lease any of our properties to other lessees on substantially equivalent or better terms than any of our leases with Darden, or at all, successfully reposition our properties for other uses or sell our properties on terms that are favorable to us. It may be more difficult to find a replacement tenant for a restaurant or retail property than it would be to find a replacement tenant for a general commercial property due to the specialized nature of the business.

In addition, our operation of the Kerrow Restaurant Operating Business depends on the provision of services to us by Darden pursuant to the Franchise Agreements. The Franchise Agreements provide that Darden agrees to provide certain franchising services to our subsidiary, Kerrow. The franchising services include licensing the right to use and display certain trademarks, utilize trade secrets and purchase proprietary products from Darden in connection with the operation of the Kerrow Restaurant Operating Business. Other services provided pursuant to the Franchise Agreements are marketing services, training and access to certain LongHorn operating procedures. The Franchise Agreements also contain provisions under which Darden may provide certain technical support for the Kerrow Restaurant Operating Business.

Additional information about Darden can be found in Darden's public filings with the SEC. Darden's filings with the SEC can be found on the SEC's Internet website at www.sec.gov. Reference to Darden's filings with the SEC is solely for the information of investors. We do not intend the SEC's website to be an active link or to otherwise incorporate the information contained on its website (including Darden's filings with the SEC) into this report or other filings with the SEC.

We are dependent on our major tenants successfully operating their businesses, and a failure to do so could have a material adverse effect on our business, financial position or results of operations.

For the year ended December 31, 2018, Darden and Brinker International, Inc. ("Brinker") constituted approximately 77% and 9%, respectively, of our annual cash base rent. As a result, we are dependent on Darden and Brinker successfully operating their businesses and fulfilling their obligations to us that depend, in part, on the overall performance and profitability of Darden and Brinker. Factors which may impact the business, financial position or results of operations of Darden and Brinker include the following:

- food safety and food-borne illness concerns throughout the supply chain; health concerns arising from food-related pandemics, outbreaks of flu viruses or other diseases;
- litigation, including allegations of illegal, unfair or inconsistent employment practices;
- unfavorable publicity, or a failure to respond effectively to adverse publicity;
- labor and insurance costs;
- insufficient guest or employee facing technology, or a failure to maintain a continuous and secure cyber network, free from material failure, interruption or security breach;
- inability or failure to execute a comprehensive business continuity plan following a major natural disaster such as a hurricane or man-made disaster, including terrorism;
- failure to drive both short-term and long-term profitable sales growth through brand relevance, operating excellence, opening new restaurants of existing brands and developing or acquiring new dining brands;
- a lack of suitable new restaurant locations or a decline in the quality of the locations of Darden's or Brinker's current restaurants;
- a failure to identify and execute innovative marketing and guest relationship tactics and ineffective or improper use of social media or other marketing initiatives; an inability or failure to recognize, respond to and effectively manage the accelerated impact of social media;
- a failure to address cost pressures, including rising costs for commodities, health care and utilities used by Darden's and Brinker's restaurants, and a failure to effectively deliver cost management activities and achieve economies of scale in purchasing;
- the impact of shortages or interruptions in the delivery of food and other products from third-party vendors and suppliers;

disruptions in the financial markets that may impact consumer spending patterns, affect the availability and cost of credit and increase pension plan expenses;
economic and business factors specific to the restaurant industry and other general macroeconomic factors including energy prices and interest rates that are largely out of Darden's or Brinker's control; and
a failure of Darden's or Brinker's internal controls over financial reporting and future changes in accounting standards. A significant portion of our restaurant properties are Olive Garden properties. Therefore, we are subject to risks associated with having a highly concentrated property brand base.

As of December 31, 2018, our restaurant properties include 299 Olive Garden restaurants. As a result, our success, at least in the short-term, is dependent on the continued success of the Olive Garden brand and, to a lesser extent, Darden's other restaurant brands. We believe that building brand value is critical to increasing demand and building customer loyalty. Consequently, if market recognition or the positive perception of the Olive Garden or other Darden brands is reduced or compromised, the value associated with Olive Garden or other Darden-branded properties in our portfolio may be adversely affected.

We intend to continue to pursue acquisitions of additional properties and seek other strategic opportunities, which may result in the use of a significant amount of management resources or significant costs, including the cost of accessing debt or equity markets, and we may not fully realize the potential benefits of such transactions.

In 2018, we acquired 97 properties in 22 transactions for a total investment of \$268.3 million, including capitalized transaction costs, which were added to our leasing portfolio. We intend to continue to pursue acquisitions of additional properties and seek acquisitions and other strategic opportunities, including, but not limited to, continuing to expand our tenant base to third parties other than Darden and potentially acquiring non-restaurant properties. Accordingly, we may often be engaged in evaluating potential transactions, potential new tenants and other strategic alternatives. In addition, from time to time, we may engage in discussions that may result in one or more transactions. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transaction, we may devote a significant amount of our management resources to such a transaction, which could negatively impact our operations. We may incur significant costs in connection with seeking acquisitions or other strategic opportunities regardless of whether the transaction is completed and in combining our operations if such a transaction is completed. In addition, properties we acquire may be leased to unrated tenants, and the tools we use to measure credit quality may not be accurate. In the event that we consummate an acquisition or strategic alternative in the future, there is no assurance that we would fully realize the potential benefits of such a transaction.

We operate in a highly competitive market and face competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, restaurant and retail operators, lenders and other investors, some of whom are significantly larger and have greater resources and lower costs of capital. Increased competition will make it more challenging to identify and successfully capitalize on acquisition opportunities that meet our investment objectives. Our Board of Directors may change our investment objectives at any time without stockholder approval. If we cannot identify and purchase a sufficient quantity of suitable properties at favorable prices or if we are unable to finance acquisitions on commercially favorable terms, our business, financial position or results of operations could be materially and adversely affected. Additionally, the fact that we must distribute 90% of our net taxable income in order to maintain our qualification as a REIT may limit our ability to rely upon rental payments from our leased properties or subsequently acquired properties in order to finance acquisitions and other strategic opportunities. In addition, to pursue acquisitions we may have to access debt or equity markets and if financing is not available on acceptable terms, our ability to pursue further acquisitions might be limited or curtailed.

Acquisitions of properties we might seek to acquire entail risks associated with real estate investments generally, including that the investment's performance will fail to meet expectations or that the tenant, operator or manager will underperform.

Our level of indebtedness could materially and adversely affect our financial position, including reducing funds available for other business purposes and reducing our operational flexibility, and we may have future capital needs and may not be able to obtain additional financing on acceptable terms.

We have entered into a \$650 million term loan and revolving credit facility providing for a \$400 million term loan, \$150 million of which matures on November 9, 2022, \$150 million of which matures on November 9, 2023, and \$100 million of which

matures on March 9, 2024 and providing for a \$250 million revolving credit facility with an available facility amount through November 2021, each of which are provided by a syndicate of banks and other financial institutions. As of December 31, 2018, the term loan facility is fully drawn and the undrawn revolving credit facility had \$250 million remaining capacity. In addition, we have issued \$225.0 million of senior unsecured fixed rate notes (the "Notes"). The Notes consist of \$50.0 million of notes due in June 2024 priced at a fixed interest rate of 4.68%, \$75.0 million of notes due in June 2027 priced at a fixed interest rate of 4.93%, \$50 million of notes due in December 2026 priced at a fixed interest rate of 4.63%, and \$50 million of notes due in December 2028 priced at a fixed interest rate of 4.76%. We may incur additional indebtedness in the future to refinance our existing indebtedness, to finance newly-acquired assets or for other purposes. Our governing documents do not contain any limitations on the amount of debt we may incur and we do not have a formal policy limiting the amount of debt we may incur in the future. Subject to the restrictions, if any, set forth in our debt agreements, our Board of Directors may establish and change our leverage policy at any time without stockholder approval. Any significant additional indebtedness could require a substantial portion of our cash flow to make interest and principal payments due on our indebtedness. Greater demands on our cash resources may reduce funds available to us to pay dividends, make capital expenditures and acquisitions, or carry out other aspects of our business strategy. Increased indebtedness can also limit our ability to adjust rapidly to changing market conditions, make us more vulnerable to general adverse economic and industry conditions and create competitive disadvantages for us compared to other companies with relatively lower debt levels. Increased future debt service obligations may limit our operational flexibility, including our ability to acquire assets, finance or refinance our assets, contribute assets to joint ventures or sell assets as needed.

Moreover, our ability to obtain additional financing and satisfy our financial obligations under our indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to then prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond our control. A worsening of credit market conditions could materially and adversely affect our ability to obtain financing on favorable terms, if at all.

We also may be unable to obtain additional financing or financing on favorable terms or our operating cash flow may be insufficient to satisfy our financial obligations under our indebtedness outstanding from time to time. Among other things, although we received an investment grade credit rating of BBB- from Fitch Ratings in January 2017, any credit rating downgrade could increase our financing costs and could limit our access to financing sources. If financing is not available when needed, or is available on unfavorable terms, we may be unable to complete acquisitions or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could materially and adversely affect our business, financial condition and results of operations.

Covenants in our debt agreements may limit our operational flexibility, and a covenant breach or default could materially and adversely affect our business, financial position or results of operations.

The agreements governing our indebtedness contain customary covenants that may limit our operational flexibility. The Credit Agreement (defined below) and the terms of the Notes contain customary affirmative and negative covenants that, among other things, restrict, subject to certain exceptions, the incurrence of debt, the incurrence of secured debt, the ability of FCPT OP and the guarantors to enter into mergers, consolidations, sales of assets and similar transactions, limitations on distributions and other restricted payments, and limitations on transactions with affiliates and customary reporting obligations.

In addition, we are required to comply with the following financial covenants: (1) total indebtedness to consolidated capitalization value not to exceed 60%; (2) mortgage-secured leverage ratio not to exceed 40%; (3) total secured recourse indebtedness not to exceed 5% of consolidated capitalization value; (4) minimum fixed charge coverage ratio of 1.50 to 1.00; (5) minimum consolidated tangible net worth; (6) maximum unencumbered leverage ratio not to exceed 60%; and (7) minimum unencumbered interest coverage ratio of 1.75 to 1.00. As of December 31, 2018, we are in compliance with our existing financial covenants.

The Credit Agreement and the terms of the Notes contain customary events of default including, without limitation, payment defaults, violation of covenants and other performance defaults, defaults on payment of indebtedness and monetary obligations, bankruptcy-related defaults, judgment defaults, REIT status default and the occurrence of certain change of control events. Breaches of certain covenants may result in defaults and cross-defaults under certain of our other indebtedness, even if we satisfy our payment obligations to the respective obligee.

Covenants that limit our operational flexibility, as well as covenant breaches or defaults under our debt instruments, could materially and adversely affect our business, financial position or results of operations, or our ability to incur additional indebtedness or refinance existing indebtedness.

An increase in market interest rates could increase our interest costs on existing and future debt and could adversely affect our stock price, and a decrease in market interest rates could lead to additional competition for the acquisition of real estate, which could adversely affect our results of operations.

If interest rates increase, so could our interest costs for any new debt and our variable rate debt obligations pursuant to the Credit Agreement. This increased cost could make the financing of any acquisition more expensive as well as lower our current period earnings. Rising interest rates could limit our ability to refinance existing debt when it matures or cause us to pay higher interest rates upon refinancing. In addition, an increase in interest rates could decrease the access third parties have to credit, thereby decreasing the amount they are willing to pay to lease our assets and consequently limiting our ability to reposition our portfolio promptly in response to changes in economic or other conditions. Furthermore, the dividend yield on our common stock, as a percentage of the price of such common stock, will influence the price of such common stock. Thus, an increase in market interest rates may lead prospective purchasers of our common stock to expect a higher dividend yield, which could adversely affect the market price of our common stock. In addition, decreases in interest rates may lead to additional competition for the acquisition of real estate due to a reduction in desirable alternative income-producing investments. Increased competition for the acquisition of real estate may lead to a decrease in the yields on real estate we have targeted for acquisition. In such circumstances, if we are not able to offset the decrease in yields by obtaining lower interest costs on our borrowings, our results of operations will be adversely affected.

Hedging transactions could have a negative effect on our results of operations.

We have entered into hedging transactions with respect to interest rate exposure on our term loan and we may enter into other hedging transactions, with respect to one or more of our assets or other liabilities. The use of hedging transactions involves certain risks, including: (1) the possibility that the market will move in a manner or direction that would have resulted in a gain for us had a hedging transaction not been used, in which case our performance would have been better had we not engaged in the hedging transaction; (2) the risk of an imperfect correlation between the risk sought to be hedged and the hedging transaction used; (3) the potential illiquidity for the hedging instrument used, which may make it difficult for us to close out or unwind a hedging transaction; (4) the possibility that our counterparty fails to honor its obligations; and (5) the possibility that we may have to post collateral to enter into hedging transactions, which we may lose if we are unable to honor our obligations. Our election to be subject to tax as a REIT will also result in limitations on our income sources, and the hedging strategies available to us will be more limited than those available to companies that are not REITs.

Our pursuit of investments in, and acquisitions or development of, additional properties may be unsuccessful or fail to meet our expectations.

Investments in and acquisitions of restaurant, retail and other properties we might seek to acquire entail risks associated with real estate investments generally, including that the investment's performance will fail to meet expectations, that the cost estimates for necessary property improvements will prove inaccurate or that the tenant, operator or manager will underperform or become insolvent. Real estate development projects present other risks, including construction delays or cost overruns that increase expenses, the inability to obtain required zoning, occupancy and other governmental approvals and permits on a timely basis, the incurrence of significant development costs prior to completion of the project, abandonment of development activities after expending significant resources, and exposure to fluctuations in the general economy due to the significant time lag between commencement and completion of redevelopment projects.

Inflation may materially and adversely affect us and our tenants.

Increased inflation could have a negative impact on variable-rate debt we currently have or that we may incur in the future. Our leases typically contain provisions, such as rent escalators, designed to mitigate the adverse impact of inflation on our results of operations. Because tenants are typically required to pay all property operating expenses, increases in property-level expenses at our leased properties generally do not affect us. However, increased operating expenses at vacant properties and the limited number of properties that are not subject to full triple-net leases could cause us to incur additional operating expenses, which could

increase our exposure to inflation. Additionally, the increases in rent provided by many of our leases may not keep up with the rate of inflation. Increased costs may also have an adverse impact on our tenants if increases in their operating expenses exceed increases in revenue, which may adversely affect the tenants' ability to pay rent owed to us. Our charter restricts the ownership and transfer of our outstanding stock, which may have the effect of delaying, deferring or preventing a transaction or change of control of our company.

In order for us to qualify as a REIT, not more than 50% in value of our outstanding shares of stock may be owned, beneficially or constructively, by five or fewer individuals at any time during the last half of each taxable year after the first year for which we elect to be subject to tax and qualify as a REIT. Additionally, at least 100 persons must beneficially own our stock during at least 335 days of a taxable year (other than the first taxable year for which we elect to be subject to tax and qualify as a REIT). Our charter, with certain exceptions, authorizes our Board of Directors to take such actions as are necessary or advisable to preserve our qualification as a REIT. Our charter also provides that, unless exempted by the Board of Directors, no person may own more than 9.8% in value or in number, whichever is more restrictive, of the outstanding shares of our common stock or more than 9.8% in value of the aggregate of the outstanding shares of all classes and series of our stock. The constructive ownership rules are complex and may cause shares of stock owned directly or constructively by a group of related individuals or entities to be constructively owned by one individual or entity. These ownership limits could delay or prevent a transaction or a change in control of us that might involve a premium price for shares of our stock or otherwise be in the best interests of our stockholders. The acquisition of less than 9.8% of our outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 9.8% in value of our outstanding stock, and thus violate our charter's ownership limit. Our charter also prohibits any person from owning shares of our stock that would result in our being "closely held" under Section 856(h) of the Internal Revenue Code of 1986, as amended (the "Code") or otherwise cause us to fail to qualify as a REIT. In addition, our charter provides that (i) no person shall beneficially own shares of stock to the extent such beneficial ownership of stock would result in us failing to qualify as a "domestically controlled qualified investment entity" within the meaning of Section 897(h) of the Code, and (ii) no person shall beneficially or constructively own shares of stock to the extent such beneficial or constructive ownership would cause us to own, beneficially or constructively, more than a 9.9% interest (as set forth in Section 856(d)(2)(B) of the Code) in a tenant of our real property. Subject to certain exceptions, rents received or accrued by us from a tenant will not be treated as qualifying rent for purposes of the REIT gross income requirements if we or a beneficial or constructive owner of 10% or more of our stock beneficially or constructively owns 10% or more of the total combined voting power of all classes of the tenant's stock entitled to vote or 10% or more of the total value of all classes of the tenant's stock. Any attempt to own or transfer shares of our stock in violation of these restrictions may result in the transfer being automatically void. Our charter also provides that shares of our capital stock acquired or held in excess of the ownership limit will be transferred to a trust for the benefit of a charitable beneficiary that we designate, and that any person who acquires shares of our capital stock in violation of the ownership limit will not be entitled to any dividends on the shares or be entitled to vote the shares or receive any proceeds from the subsequent sale of the shares in excess of the lesser of the market price on the day the shares were transferred to the trust or the amount realized from the sale. We or our designee will have the right to purchase the shares from the trustee at this calculated price as well. A transfer of shares of our capital stock in violation of the limit may be void under certain circumstances. Our 9.8% ownership limitation may have the effect of delaying, deferring or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for our stockholders.

Maryland law and provisions in our charter and bylaws may delay or prevent takeover attempts by third parties and therefore inhibit our stockholders from realizing a premium on their stock.

Our charter and bylaws contain, and Maryland law contains, provisions that may deter coercive takeover practices and inadequate takeover bids and encourage prospective acquirors to negotiate with our Board of Directors, rather than to attempt a hostile takeover. Our charter and bylaws, among other things, (1) contain transfer and ownership restrictions on the percentage by number and value of outstanding shares of our stock that may be owned or acquired by any stockholders; (2) permit the Board of Directors, without further action of the stockholders, to increase or decrease the authorized number of shares, issue additional shares, classify or reclassify unissued shares, and issue and fix the terms of one or more classes or series of preferred stock, which may have rights senior to those of the common stock; (3)

establish certain advance notice procedures for stockholder proposals and director nominations; and (4) provide that special meetings of stockholders may only be called by the company or upon written request of ten percent in voting power of our outstanding common stock.

Under Maryland law, any written consent of our stockholders must be unanimous. In addition, Maryland law allows a Maryland corporation with a class of equity securities registered under the Exchange Act to amend its charter without stockholder approval to effect a reverse stock split at a ratio of not more than ten shares of stock into one share of stock in any twelve-month period.

If we are not able to hire, or if we lose, key management personnel, we may not be able to successfully manage our business and achieve our objectives.

Our success depends in large part upon the leadership and performance of our executive management team and other key employees and our ability to attract other key personnel to our business. If we are unable to hire, or if we lose the services of, our executive management team or we are not able to hire or we lose other key employees, we may not be able to successfully manage our business or achieve our business objectives.

Failure by our tenants to make rental payments to us, because of a deterioration of their financial condition or otherwise, would have a material adverse effect on us.

We derive substantially all of our revenue from tenants who lease space from us at our properties. Therefore, our ability to generate cash from operations is dependent on the rents that we are able to charge and collect from our tenants. At any time, our tenants may experience a downturn in their respective businesses that may significantly weaken their financial condition, particularly during periods of economic uncertainty. As a result, our tenants may delay lease commencements, decline to extend or renew leases upon expiration, fail to make rental payments when due, close a number of restaurants or declare bankruptcy. Any of these actions could result in the loss of rental income attributable to the terminated leases and write-downs of certain of our assets. In that event, we may be unable to re-lease the vacated space at attractive rents or at all. The occurrence of any of the situations described above would have a material adverse effect on our results of operations and our financial condition.

Bankruptcy laws will limit our remedies if a tenant becomes bankrupt and rejects its leases.

If a tenant becomes bankrupt or insolvent, that could diminish the income we receive from that tenant's leases. We may not be able to evict a tenant solely because of its bankruptcy. On the other hand, a bankruptcy court might authorize the tenant to terminate its leasehold with us. If that happens, our claim against the bankrupt tenant for unpaid future rent would be an unsecured pre-petition claim subject to statutory limitations, and therefore any amounts received in bankruptcy are likely to be substantially less valuable than the remaining rent we otherwise were owed under the leases. In addition, any claim we have for unpaid past rent could be substantially less than the amount owed.

The failure of any of our tenants to fulfill its maintenance obligations may have a materially adverse effect on our ability to operate and grow our business.

The failure of any of our tenants to fulfill its maintenance obligations may cause us to incur significant and unexpected expenses to remediate any resulting damage to the property. Furthermore, the failure by Darden, any other tenant or any future tenant to adequately maintain a leased property could adversely affect our ability to timely re-lease the property to a new tenant or otherwise monetize our investment in the property if we are forced to make significant repairs or changes to the property as a result of the tenant's neglect. If we incur significant additional expenses or are delayed in being able to pursue returns on our real estate investments, it may have a materially adverse effect on our ability to operate and grow our business and our ability to achieve our strategic objectives.

We or our tenants may experience uninsured or underinsured losses, which could result in a significant loss of the capital we have invested in a property, decrease anticipated future revenues or cause us to incur unanticipated expense.

Our current lease agreements generally require, and new lease agreements that we enter into are expected to require, that the tenant maintain comprehensive insurance and hazard insurance or self-insure its obligations. However, we cannot assure you that we will continue to require the same levels of insurance coverage under our lease agreements, that such insurance will be available at a reasonable cost in the future or that the insurance coverage provided will fully cover all losses on our properties upon the occurrence of a catastrophic event, nor can we assure you of the future financial viability of the insurers. Certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, may be uninsurable or not economically insurable by us or by our tenants. Insurance coverage may not be sufficient to pay the full current market value or current replacement cost

of a loss. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also make it unfeasible to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore the economic position with respect to such property. While the tenants under our leases generally indemnify, defend and hold us harmless for the foregoing liabilities, there can be no assurance that the respective tenant will have sufficient assets, income or access to financing to enable it to satisfy its payment obligations to us under its lease.

Properties in our leasing portfolio and the Kerrow Restaurant Operating Business are located in 45 states, and if one of our properties experiences a loss that is uninsured or that exceeds policy coverage limits, we could lose the capital invested in the damaged property as well as the anticipated future cash flows from the property. If the damaged property is subject to recourse indebtedness, we could continue to be liable for the indebtedness even if the property is irreparably damaged.

In addition, even if damage to our properties is covered by insurance, a disruption of business caused by a casualty event may result in loss of revenue for our tenants or us. Any business interruption insurance may not fully compensate them or us for such loss of revenue. If one of our tenants experiences such a loss, it may be unable to satisfy its payment obligations to us under its lease with us.

Our relationship with Darden may adversely affect our ability to do business with third-party restaurant operators and other tenants.

Darden is our primary tenant in our lease portfolio, and a majority of our revenues consist of rental payments from Darden. We may be viewed by third-party restaurant operators and other potential tenants or parties to sale-leaseback transactions as being closely affiliated with Darden. As these third-party restaurant operators and other potential transaction parties may compete with Darden within the restaurant industry, our perceived affiliation with Darden could make it difficult for us to attract tenants and other transaction partners beyond Darden, particularly in the restaurant industry. If we are unable to diversify our tenant and transaction partner base further beyond Darden, it may have a materially adverse effect on our ability to operate and grow our business and our ability to achieve our strategic objectives.

The ownership by our executive officers and directors of common stock, options or other equity awards of Darden may create, or may create the appearance of, conflicts of interest.

As a result of his former positions with Darden, Mr. Lenehan owns common stock, including restricted stock, in both Darden and FCPT. In addition, there is no restriction on our executive officers and directors acquiring Darden common stock in the future, and, therefore, this ownership of common stock of both Darden and FCPT may be significant. Equity interests in Darden may create, or appear to create, conflicts of interest when any such director or executive officer is faced with decisions that could benefit or affect the equity holders of Darden in ways that do not benefit or affect us in the same manner. As of December 31, 2018, no other executive officer or director of FCPT owns common stock of Darden.

Real estate investments are relatively illiquid and provisions in our lease agreements may adversely impact our ability to sell properties and could adversely impact the price at which we can sell the properties.

Properties in our leasing portfolio and the properties leased to Kerrow represent a substantial portion of our total consolidated assets, and these investments are relatively illiquid. As a result, our ability to sell one or more of our properties or other investments in real estate we may make in response to any changes in economic or other conditions may be limited. If we want to sell a property, we cannot assure you that we will be able to dispose of it in the desired time period, or at all, or that the sale price of a property will exceed the cost of our investment in that property.

In addition, the properties subject to leases with Darden provide them a right of first offer with respect to our sale of any such Property, provided there is no default under the lease, and we are prohibited from selling any of our properties to (i) any nationally recognized casual or fine dining brand restaurant or entity operating the same or (ii) any other regionally recognized casual or fine dining brand restaurant or entity operating the same, with 25 or more units. The existence of these provisions in our leases with Darden, which survive for the full term of the relevant lease, could adversely impact our ability to sell any of the Properties and could adversely impact our ability to obtain the highest possible price for any of the Properties. If we seek to sell any of our properties, we would not be able to offer the properties to potential purchasers through a competitive bid process or in a similar

manner designed to maximize the value obtained without first offering to sell to Darden and we would be restricted in the potential purchasers who could buy the properties, which may adversely impact our ability to sell any of the properties in a timely manner, or at all, or adversely impact the price we can obtain from such sale.

We are dependent on the restaurant industry and may be susceptible to the risks associated with it, which could materially adversely affect our business, financial position or results of operations.

As the owner of properties serving the restaurant industry, we are impacted by the risks associated with the restaurant industry. Therefore, our success is to some degree dependent on the restaurant industry, which could be adversely affected by economic conditions in general, changes in consumer trends and preferences and other factors over which we and any of our tenants in the restaurant industry have no control. As we are subject to risks inherent in substantial investments in a single industry, a decrease in the restaurant business would likely have a greater adverse effect on our revenues than if we owned a more diversified real estate portfolio.

The restaurant industry is characterized by a high degree of competition among a large number of participants.

Competition is intense between national and regional restaurant chains and locally-owned restaurants in most of the markets where our properties are located. As competing properties are constructed, the lease rates we assess for our properties may be negatively impacted upon renewal or new tenant pricing events.

Our portfolio has some geographic concentration, which makes us more susceptible to adverse events in these areas.

Our properties are located throughout the United States and in particular, the States of Texas and Florida, where 12% and 11%, respectively, of our annualized base rent was derived as of December 31, 2018. An economic downturn or other adverse events or conditions such as natural disasters in these areas, or any other area where we may have significant concentration in the future, could result in a material reduction of our cash flows or material losses to our company.

Our tenants' businesses and our business through the operation of Kerrow are subject to government regulations and changes in current or future laws or regulations could restrict their ability to operate both their and our business in the manner currently contemplated.

The restaurant industry is subject to extensive federal, state and local and international laws and regulations. The development and operation of restaurants depend to a significant extent on the selection and acquisition of suitable sites, which are subject to building, zoning, land use, environmental, traffic and other regulations and requirements.

Our tenants and Kerrow are subject to licensing and regulation by state and local authorities relating to wages and hours, healthcare, health, sanitation, safety and fire standards, the sale of alcoholic beverages, and information security. Our tenants and Kerrow are also subject to, among other laws and regulations, laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations, or an insufficient or ineffective response to significant regulatory or public policy issues, could have an adverse effect on our tenants' results of operations, which could also adversely affect our business, results of operations or financial condition as we depend on our tenants for almost the entirety of our revenue.

Environmental compliance costs and liabilities associated with real estate properties owned by us may materially impair the value of those investments.

As an owner and operator of real property, we are subject to various federal, state and local environmental, health and safety laws and regulations. We may be held primarily or jointly and severally liable for costs relating to the investigation and clean-up of any of our current or former properties at or from which there has been a release or threatened release of hazardous materials as well as other affected properties, regardless of whether we knew of or caused the contamination.

In addition to these costs, which are typically not limited by law or regulation and could exceed the property's value, we or our tenants could be subject to other liabilities, including governmental penalties for violation of environmental, health and safety laws, liabilities for injuries to persons for exposure to hazardous materials, and damages to property or natural resources. Furthermore, some environmental laws can create a lien on the contaminated site in favor of the government for damages and the

costs the government incurs in connection with such contamination or can restrict the manner in which a property may be used because of contamination. We also could be liable for the costs of remediating contamination at third party sites, e.g., landfills, where we send waste for disposal without regard to whether we comply with environmental laws in doing so.

The presence of contamination or the failure to remediate contamination may adversely affect our ability to sell, develop or lease the real estate or to borrow using the real estate as collateral.

In addition, regulations in response to climate change could result in increased compliance and energy costs.

While the tenants under our leases generally indemnify, defend and hold us harmless for the foregoing liabilities, there can be no assurance that the respective tenant will have sufficient assets, income or access to financing to enable it to satisfy its payment obligations to us under its lease.

We may be subject to liabilities and costs associated with the impacts of climate change.

The potential physical impacts of climate change on our properties or operations are highly uncertain and would be particular to the geographic circumstances in areas in which we operate, including Florida, Georgia and Texas. Such impacts may result from increased frequency of natural disasters, changes in rainfall and storm patterns and intensities, water shortages, changing sea levels, rising energy and environmental costs, and changing temperatures. These impacts may adversely impact our business, results of operations and financial condition, including our or our tenants' ability to obtain property insurance on acceptable terms. While the tenants under our leases generally indemnify, defend and hold us harmless for the foregoing liabilities, there can be no assurance that the respective tenant will have sufficient assets, income or access to financing to enable it to satisfy its payment obligations to us under its lease.

Compliance with the Americans with Disabilities Act and fire, safety and other regulations may require us to make unanticipated expenditures that materially adversely impact our cash flow.

All of our properties are required to comply with Title III of the Americans with Disabilities Act, or the ADA. The ADA generally requires that buildings be made accessible to people with disabilities. Compliance with the ADA requirements could require, for example, removal of access barriers and non-compliance could result in the imposition of fines by the U.S. Government or an award of damages to private litigants, or both. While the tenants to whom we lease properties are obligated by law to comply with the ADA provisions, under the law we are also legally responsible for our properties' ADA compliance. If required changes involve greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, the ability of our tenants to cover costs could be adversely affected and we could be required to expend our own funds to comply with the provisions of the ADA, which could have an adverse effect on our financial condition and our ability to make distributions. State and local laws may also require modifications to our properties related to access by disabled persons. In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to our properties. We may be required to make substantial capital expenditures to comply with those requirements and these expenditures could have a material adverse effect on our cash flow and ability to make distributions to our security holders.

While the tenants under our leases generally indemnify, defend and hold us harmless for the foregoing liabilities, there can be no assurance that the respective tenant will have sufficient assets, income or access to financing to enable it to satisfy its payment obligations to us under its lease.

Our active management and operation of a restaurant business may expose us to potential liabilities beyond those traditionally associated with REITs.

In addition to our real estate investment activities, we also manage and operate the Kerrow Restaurant Operating Business, which consists of six LongHorn Steakhouse® restaurants located in the San Antonio, Texas area. Managing and operating the Kerrow Restaurant Operating Business requires us to employ significantly more people than a REIT that does not operate a business of such type and scale. In addition, managing and operating an active restaurant business exposes us to potential liabilities associated with the operation of restaurants. Such potential liabilities are not typically associated with REITs and include potential liabilities for wage and hour violations, guest discrimination, food safety issues including poor food quality, food-borne illness, food tampering, food contamination, workplace injury, cyber attacks, and violation of "dram shop" laws (providing an injured party

with recourse against an establishment that serves alcoholic beverages to an intoxicated party who then causes injury to himself or a third party). In the event that one or more of the potential liabilities associated with managing and operating an active restaurant business materializes, such liabilities could damage the reputation of the Kerrow Restaurant Operating Business as well as the reputation of FCPT, and could adversely affect our financial position and results of operations, possibly to a material degree.

If our security measures are breached, we may face liability and public perception of our services could be diminished, which would negatively impact our ability to attract business partners and advertisers.

Our security measures are not perfect or impenetrable, and we may be unable to anticipate or prevent unauthorized access. A cyber attack or other security breach could occur due to the actions of outside parties, employee error, malfeasance or a combination of these or other actions. If an actual or perceived breach of our security occurs, we could lose competitively sensitive business information or suffer disruptions to our business operations. In addition, the public perception of the effectiveness of our security measures or services could be harmed, we could lose consumers, business partners and advertisers, and we could suffer financial exposure in connection with remediation efforts, investigations and legal proceedings and changes in our security and system protection measures.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could materially and adversely affect our business and the market price of our common stock.

Under the Sarbanes-Oxley Act, we must maintain effective disclosure controls and procedures and internal control over financial reporting, which requires significant resources and management oversight. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we had previously believed that internal controls were effective. Matters impacting our internal controls may cause us to be unable to report our financial data on a timely basis, or may cause us to restate previously issued financial data, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in the market price for our common stock and impairing our ability to raise capital. If our reputation or our tenants' reputation are damaged, our business and operating results may be harmed.

Our reputation and our tenants' reputations are important to our business. Our reputation affects our ability to access capital, acquire additional properties and recruit and retain talented employees. Our tenants' reputations affect their ability to continue to operate profitably and make payments under their lease agreements with us on time. There are numerous ways our reputation or our tenants' reputation could be damaged. These include unethical behavior or misconduct, workplace safety incidents, environmental impact, corporate governance issues, data breaches or human rights records. We or our tenants may experience backlash from customers, government entities, advocacy groups, employees, and other stakeholders that disagree with our operating decisions or public policy positions. The proliferation of social media may increase the likelihood, speed, and magnitude of negative events. If our or our tenants' reputation is damaged, it could adversely affect our business, results of operations, financial condition or ability to attract the most highly qualified employees.

Risks Related to Our Common Stock

The market price and trading volume of our common stock may be volatile and may face negative pressure including as a result of future sales or distributions of our common stock.

The market price of our common stock may be volatile in the future. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur. It is not possible to accurately predict how investors in our common stock will behave.

Any disposition by a significant stockholder of our common stock, or the perception in the market that such dispositions could occur, may cause the price of our common stock to fall. Any such decline could impair our ability to raise capital through future sales of our common stock. Furthermore, our common stock may not qualify for investment indices, including indices specific to REITs, and any such failure may discourage new investors from investing in our common stock.

If and when additional funds are raised through the issuance of equity securities, including our common stock, our stockholders may experience significant dilution.

We cannot assure shareholders of our ability to pay dividends in the future.

Our current dividend rate is \$1.15 per share per annum. We may pay a portion of our dividends in common stock. In no event will the annual dividend be less than 90% of our REIT taxable income on an annual basis, determined without regard to the dividends paid deduction and excluding any net capital gains. Our ability to pay dividends may be adversely affected by a number of factors, including the risk factors described in this Annual Report on Form 10-K. Dividends will be authorized by our Board of Directors and declared by us based upon a number of factors, including actual results of operations, restrictions under Maryland law or applicable debt covenants, our financial condition, our taxable income, the annual distribution requirements under the REIT provisions of the Code, our operating expenses and other factors our directors deem relevant. We cannot assure shareholders that we will achieve investment results that will allow us to make a specified level of cash dividends or year-to-year increases in cash dividends in the future. Furthermore, while we are required to pay dividends in order to maintain our REIT status (as described below in the risk factor "--REIT distribution requirements could adversely affect our ability to execute our business plan"), we may elect not to maintain our REIT status, in which case we would no longer be required to pay such dividends. Moreover, even if we do elect to maintain our REIT status, after completing various procedural steps, we may elect to comply with the applicable distribution requirements by distributing, under certain circumstances, a portion of the required amount in the form of shares of our common stock in lieu of cash. If we elect not to maintain our REIT status or to satisfy any required distributions in shares of common stock in lieu of cash, such action could negatively affect our business and financial condition as well as the market price of our common stock. No assurance can be given that we will pay any dividends on shares of our common stock in the future.

Risks Related to Our Taxation as a REIT

If we do not qualify as a REIT, or fail to remain qualified as a REIT, we will be subject to U.S. federal income tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders.

We believe that we were organized and have operated and we intend to continue to operate in a manner that will enable us to qualify as a REIT for U.S. federal income tax purposes commencing with our taxable year ended January 1, 2016. Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, as amended (the "Code"), for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset requirements depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we do not obtain independent appraisals. Our compliance with the REIT income and asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of one or more of our investments may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements. In addition, our ability to satisfy the requirements to qualify as a REIT may depend in part on the actions of third parties over which we have no control or only limited influence. Accordingly, there can be no assurance that the Internal Revenue Service (the "IRS") will not contend that our investments violate the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax, including (for taxable years beginning before December 31, 2017) any applicable alternative minimum tax, on our taxable income at the regular corporate rate, and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate

tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of, and trading prices for, our common stock. Unless entitled to relief under certain provisions of the Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we initially ceased to qualify as a REIT.

The rule against re-electing REIT status following a loss of such status could also apply to us if it were determined that a former subsidiary of Darden failed to qualify as a REIT for certain taxable years and we were treated as a successor to such entity for U.S. federal income tax purposes. Although Darden has represented to us that it has no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT and covenanted to use its reasonable best efforts to cure any issue with respect to the REIT status of any such predecessor entity, no assurance can be given that such representation and covenant would prevent us from failing to qualify as a REIT. If we fail to qualify as a REIT due to the REIT status of a predecessor, we would be subject to corporate income tax as described in the preceding paragraph.

We could fail to qualify as a REIT if income we receive from Darden and other tenants is not treated as qualifying income.

Under applicable provisions of the Code, we will not be treated as a REIT unless we satisfy various requirements, including requirements relating to the sources of our gross income. Rents received or accrued by us from Darden and other tenants will not be treated as qualifying rent for purposes of these requirements if our leases are not respected as true leases for U.S. federal income tax purposes and are instead treated as service contracts, joint ventures or other types of arrangements. If our leases are not respected as true leases for U.S. federal income tax purposes, we may fail to qualify as a REIT.

In addition, subject to certain exceptions, rents received or accrued by us from Darden will not be treated as qualifying rent for purposes of the REIT gross income requirements if we or a beneficial or constructive owner of 10% or more of our stock beneficially or constructively owns 10% or more of the total combined voting power of all classes of Darden stock entitled to vote or 10% or more of the total value of all classes of Darden stock. Our charter provides for restrictions on ownership and transfer of our shares of stock, including restrictions on such ownership or transfer that would cause the rents received or accrued by us from Darden to be treated as non-qualifying rent for purposes of the REIT gross income requirements. Nevertheless, there can be no assurance that such restrictions will be effective in ensuring that rents received or accrued by us from Darden will not be treated as qualifying rent for purposes of REIT qualification requirements.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum U.S. federal income tax rate applicable to income from “qualified dividends” payable by non-REIT “C” corporations to certain non-corporate U.S. stockholders is currently 23.8% (taking into account the 3.8% Medicare tax applicable to net investment income). Dividends payable by REITs, however, generally are not qualified dividends. Effective for taxable years beginning after December 31, 2017 and before January 1, 2026, non-corporate U.S. stockholders may deduct 20% of their dividends from REITs (excluding qualified dividend income and capital gains dividends). For non-corporate U.S. stockholders in the top marginal tax bracket of 37%, the deduction for REIT dividends yields an effective income tax rate of 29.6% on REIT dividends, which is higher than the 20% tax rate on qualified dividend income paid by “C” corporations. This does not adversely affect the taxation of REITs; however, the more favorable rates applicable to regular corporate qualified dividends could cause certain non-corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT “C” corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, in order for us to qualify as a REIT (assuming that certain other requirements are also satisfied). To the extent that we satisfy this distribution requirement and qualify for taxation as a REIT but distribute less than 100% of our REIT taxable income, determined without regard to the dividends paid deduction and including any net capital gains, we will be subject to U.S. federal corporate income tax on our undistributed net taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we distribute to our stockholders in a calendar year is less than

a minimum amount specified under U.S. federal tax laws. We intend to continue to make distributions to our stockholders to comply with the REIT requirements of the Code.

Currently our funds from operations are generated primarily by rents paid under our lease agreements. From time to time, we may generate taxable income greater than our cash flow as a result of differences in timing between the recognition of taxable income and the actual receipt of cash or the effect of nondeductible capital expenditures, the creation of reserves or required debt or amortization payments. Further, income must be accrued for U.S. federal income tax purposes no later than when such income is taken into account as revenue in our financial statements, subject to certain exceptions, which could also create mismatches between REIT taxable income and the receipt of cash attributable to such income. If we do not have other funds available in these situations, we could be required to borrow funds on unfavorable terms, sell assets at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distributions requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity or adversely impact our ability to raise short and long-term debt. Furthermore, the REIT distribution requirements may increase the financing needed to fund capital expenditures, further growth and expansion initiatives. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state, and local taxes on our income and assets, including taxes on any undistributed income and state or local income, property and transfer taxes. Moreover, if we have net income from “prohibited transactions,” that income will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. While we will undertake sales of assets if those assets become inconsistent with our long-term strategic or return objectives, we do not believe that those sales should be considered prohibited transactions, but there can be no assurance that the IRS would not contend otherwise. The need to avoid prohibited transactions could cause us to forego or defer sales of properties that might otherwise be in our best interest to sell. In addition, any net taxable income earned directly by our TRSs will be subject to U.S. federal, state, and local corporate-level income taxes and we may incur a 100% excise tax on transactions with a TRS if they are not conducted on an arm’s-length basis. Any of these taxes would decrease cash available for distribution to our stockholders.

Complying with the REIT requirements may cause us to forego otherwise attractive acquisition and business opportunities or liquidate otherwise attractive investments.

To qualify as a REIT for U.S. federal income tax purposes, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and “real estate assets” (as defined in the Code). The remainder of our investments (other than government securities, qualified real estate assets and securities issued by a TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, qualified real estate assets and securities issued by a TRS) can consist of the securities of any one issuer, and no more than 20% (25% effective for taxable years beginning before January 1, 2018) of the value of our total assets can be represented by securities of one or more TRSs and no more than 25% of the value of our assets can be represented by certain debt instruments issued by “publicly offered REITs.” If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within thirty days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate or forego otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

In addition to the asset tests set forth above, to qualify as a REIT we must continually satisfy tests concerning, among other things, the sources of our income, the amounts we distribute to our stockholders and the ownership of our stock. We may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT

requirements may hinder our ability to make certain attractive investments.

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We may acquire properties or portfolios of properties through tax deferred contribution transactions, which could result in stockholder dilution and limit our ability to sell or refinance such assets.

We have in the past and may in the future acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership units in an operating partnership, which could result in stockholder dilution through the issuance of operating partnership units that, under certain circumstances, may be exchanged for shares of our common stock. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to restrictions on our ability to dispose of, or refinance the debt on, the acquired properties in order to protect the contributors' ability to defer recognition of taxable gain. Similarly, we may be required to incur or maintain debt we would otherwise not incur so we can allocate the debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell or refinance an asset at a time, or on terms, that would be favorable absent such restrictions. See "Our tax protection agreement could limit our ability to sell or otherwise dispose of certain properties."

There are uncertainties relating to the Purging Distribution.

Darden has allocated its accumulated earnings and profits (as determined for U.S. federal income tax purposes) for periods prior to the Spin-Off between Darden and FCPT in a manner that, in its best judgment, is in accordance with the provisions of the Code. The amount of earnings and profits to be distributed is a complex factual and legal determination. We believe that our Purging Distribution (defined below) made on March 2, 2016 has satisfied the requirements relating to the distribution of our pre-REIT accumulated earnings and profits. No assurance can be given, however, that the IRS will agree with our calculation or Darden's allocation of earnings and profits to FCPT. If the IRS finds additional amounts of pre-REIT earnings and profits, there are procedures generally available to cure any failure to distribute all of our pre-REIT earnings and profits, but there can be no assurance that we will be able to successfully implement such procedures.

We may pay dividends on our common stock in common stock and/or cash. Our stockholders may sell shares of our common stock to pay tax on such dividends, placing downward pressure on the market price of our common stock. In connection with our qualification as a REIT, we are required to annually distribute to its stockholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. Although we do not currently intend to do so, in order to satisfy this requirement, we are permitted, subject to certain conditions and limitations, to make distributions that are in part payable in shares of our common stock. Taxable stockholders receiving such distributions will be required to report dividend income as a result of such distribution for both the cash and stock components of the distribution and even though we distributed no cash or only nominal amounts of cash to such shareholder.

If we make any taxable dividend payable in cash and common stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. As a result, stockholders may be required to pay income tax with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells shares of our stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of the stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in our stock. If, in any taxable dividend payable in cash and stock, a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may be viewed as economically equivalent to a dividend reduction and put downward pressure on the market price of our stock.

If the Spin-Off were to fail to qualify as a tax-free transaction for U.S. federal income tax purposes, Darden and Darden's shareholders could be subject to significant tax liabilities and, pursuant to indemnification obligations under the Tax Matters Agreement that we entered into with Darden, we could be required to indemnify Darden for material taxes.

Darden has received a private letter ruling (the "IRS Ruling") from the IRS on certain specific issues relevant to the qualification of the Spin-Off as tax-free under Sections 368(a)(1)(D) and 355 of the Code, based on certain facts and representations set forth in such request. Although a private letter ruling from the IRS generally is binding on the IRS,

if the factual representations made in the ruling request are untrue or incomplete in any material respect, then Darden will not be able to rely on the IRS Ruling. The IRS Ruling does not address all of the requirements for tax-free treatment of the Spin-Off under Sections 355 and 368(a)(1)(D)

of the Code; however, Darden has received an opinion from Skadden, Arps, Slate, Meagher & Flom LLP (the “Spin-Off Tax Opinion”) to the effect that the Spin-Off qualifies as tax-free under Sections 368(a)(1)(D) and 355 of the Code. The Spin-Off Tax Opinion relies on the IRS Ruling as to matters covered by such ruling and is based on, among other things, current law and certain assumptions and representations as to factual matters made by Darden and us. Any change in currently applicable law, which may or may not be retroactive, or the failure of any factual representation or assumption to be true, correct and complete in all material respects, could adversely affect the conclusions reached by counsel in the Spin-Off Tax Opinion. The Spin-Off Tax Opinion is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. The Spin-Off Tax Opinion is expressed as of the date issued and does not cover subsequent periods. An opinion of counsel represents counsel’s best legal judgment based on current law and is not binding on the IRS or any court. We cannot assure you that the IRS will agree with the conclusions set forth in the Spin-Off Tax Opinion, and it is possible that the IRS or another tax authority could adopt a position contrary to one or all of those conclusions and that a court could sustain that contrary position. If any of the facts, representations, assumptions, or undertakings described or made in connection with the IRS Ruling or the Spin-Off Tax Opinion are not correct, are incomplete or have been violated, the IRS Ruling could be revoked retroactively or modified by the IRS, and our ability to rely on the Spin-Off Tax Opinion could be jeopardized. We are not aware of any facts or circumstances, however, that would cause these facts, representations, or assumptions to be untrue or incomplete, or that would cause any of these undertakings to fail to be complied with, in any material respect.

If the Spin-Off ultimately were determined to be taxable, then a shareholder of Darden that received shares of our common stock in the Spin-Off would be treated as having received a distribution of property in an amount equal to the fair market value of such shares on the distribution date and could incur significant income tax liabilities. Such distribution would be taxable to such shareholder as a dividend to the extent of Darden’s current and accumulated earnings and profits (including earnings and profits resulting from the recognition of gain by Darden in the Spin-Off). Any amount that exceeded Darden’s earnings and profits would be treated first as a non-taxable return of capital to the extent of such shareholder’s tax basis in its shares of Darden stock with any remaining amount being taxed as a capital gain. In addition, if the Spin-Off were determined to be taxable, in general, Darden would be required to recognize a taxable gain as if it had sold our common stock in a taxable sale for its fair market value.

Under the terms of the tax matters agreement that we entered into with Darden (the “Tax Matters Agreement”), we generally will be responsible for any taxes imposed on Darden that arise from the failure of the Spin-Off to qualify as tax-free for U.S. federal income tax purposes to the extent such failure to qualify is attributable to certain actions, events or transactions relating to our stock, assets or business, or a breach of the relevant representations or any covenants made by us in the Tax Matters Agreement, the materials submitted to the IRS in connection with the request for the IRS Ruling or the representations provided in connection with the Spin-Off Tax Opinion. Our indemnification obligations to Darden will not be limited by any maximum amount. If we are required to indemnify Darden under the circumstances set forth in the Tax Matters Agreement, we may also be subject to substantial tax liabilities.

Complying with the REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code substantially limit our ability to hedge our assets and liabilities. Income from certain hedging transactions that we may enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets or manages the risk of certain currency fluctuations does not constitute “gross income” for purposes of the 75% or 95% gross income tests that apply to REITs, provided that certain identification requirements are met. To the extent that we enter into other types of hedging transactions or fail to properly identify such transaction as a hedge, the income is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may be required to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because the TRS may be subject to tax on gains or expose us to greater risks associated with changes in interest rates that we would otherwise want to bear. In addition, losses in the TRS will generally not provide any tax benefit, except that such losses could theoretically be carried forward against future taxable income in the TRS.

The ability of our Board of Directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides our Board of Directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a regular corporation, without the approval of our stockholders. If we cease to qualify

as a REIT, we would become subject to U.S. federal income tax on our net taxable income and we generally would no longer be required to distribute any of our net taxable income to our stockholders, which may have adverse consequences on our total return to our stockholders.

Even if we qualify to be subject to tax as a REIT, we could be subject to tax on any unrealized net built-in gains in our assets held before electing to be treated as a REIT.

Following our REIT election, we owned appreciated assets that were previously held by Darden, a C corporation, and were acquired by us in the Spin-Off in a transaction in which the adjusted tax basis of the assets in our hands was determined by reference to the adjusted basis of the assets in the hands of the C corporation. If we dispose of any such appreciated assets during the five-year period following the effective date of our REIT election, we will be subject to tax at the highest corporate tax rates on the lesser of (i) the amount of gain that we recognize at the time of the sale or disposition; and (ii) the amount of gain that we would have recognized if we had sold the assets at the time we acquired them (i.e., the effective date of our REIT election) (such gain referred to as “built-in gains”). We would be subject to this tax liability even if we qualify and maintain our status as a REIT. Any recognized built-in gain will retain its character as ordinary income or capital gain and will be taken into account in determining REIT taxable income and our distribution requirement. Any tax on the recognized built-in gain will reduce REIT taxable income. We may choose not to sell in a taxable transaction appreciated assets we might otherwise sell during the five-year period in which the built-in gain tax applies in order to avoid the built-in gain tax. However, there can be no assurances that such a taxable transaction will not occur. If we sell such assets in a taxable transaction, the amount of corporate tax that we will pay will vary depending on the actual amount of net built-in gain or loss present in those assets as of the time we became a REIT. The amount of tax could be significant. The same rules would apply to any assets we acquire in the future from a C corporation in a carryover basis transaction with built-in gain at the time of the acquisition by us. If we choose to dispose of any assets within the specified period, we will attempt to utilize various tax planning strategies, including Section 1031 of the Code like-kind exchanges, to mitigate the exposure to the built-in-gains tax. Gain from a sale of an asset occurring after the specified period ends will not be subject to this corporate level tax.

Our tax protection agreement could limit our ability to sell or otherwise dispose of certain properties.

In connection with the acquisition of ten properties from U.S. Restaurant Properties, Inc. (“USRP”) in November 2016 and four additional properties from USRP in January 2017, in exchange for FCPT OP units, we entered into a tax protection agreement with affiliates of USRP. The tax protection agreement provides that, if we dispose of any of those 14 properties in a taxable transaction through November 2023 for the initial ten properties or January 2024 for the additional four properties, we will indemnify the USRP partners for their tax liabilities attributable to the built-in gain that existed with respect to those properties as of the time of the acquisition of those properties in November 2016 or January 2017, respectively (and tax liabilities incurred as a result of the reimbursement payment).

Consequently, although it otherwise may be in our best interest to sell one of those properties, these obligations may make it prohibitive for us to do so.

Legislative or other actions affecting REITs could have a negative effect on us.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the Treasury Department. Changes to the tax laws, with or without retroactive application, could adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the federal income tax consequences of such qualification, or the federal income tax consequences of an investment in us. Also, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT.

The Tax Cuts and Jobs Act of 2017 (“TCJA”) significantly changed the U.S. federal income taxation of U.S. businesses and their owners, including REITs and their stockholders. Changes made by the TCJA that could affect the Company and its stockholders include:

temporarily reducing individual U.S. federal income tax rates on ordinary income; the highest individual U.S. federal income tax rate has been reduced from 39.6% to 37% for taxable years beginning after December 31, 2017 and before January 1, 2026;

permanently eliminating the progressive corporate tax rate structure, which previously imposed a maximum corporate tax rate of 35%, and replacing it with a flat corporate tax rate of 21%;

- permitting a deduction for certain pass-through business income, including dividends received by our stockholders from us that are not designated by us as capital gain dividends or qualified dividend income, which will allow individuals, trusts, and estates to deduct up to 20% of such amounts for taxable years beginning after December 31, 2017 and before January 1, 2026;

- reducing the highest rate of withholding with respect to our distributions to non-U.S. stockholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests from 35% to 21%;

- limiting our deduction for net operating losses arising in taxable years beginning after December 31, 2017 to 80% of our REIT taxable income (prior to the application of the dividends paid deduction);

- generally limiting the deduction for net business interest expense in excess of 30% of a business's "adjusted taxable income," except for taxpayers that engage in certain real estate businesses (including most equity REITs) and elect out of this rule (provided that such electing taxpayers must use an alternative depreciation system with longer depreciation periods); and

- eliminating the corporate alternative minimum tax.

The TCJA is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementing regulations by the Treasury Department and IRS, any of which could lessen or increase the impact of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities.

While some of the changes made by the TCJA may adversely affect the Company in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Please refer to “Item 1. Business.”

Item 3. Legal Proceedings.

In the ordinary course of our business, we are party to various claims and legal proceedings 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 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information for Common Stock

Our common stock has been listed on the New York Stock Exchange under the ticker symbol "FCPT" since November 10, 2015.

Dividends

The following table presents the characterizations for tax purposes of such common stock dividends for the year ended December 31, 2018.

Record Date	Payment Date	Total Distribution (\$ per share)	Form 1099 Box 1a Ordinary Taxable Dividend (\$ per share)	Form 1099 Box 1b Qualified Taxable Dividend (\$ per share)	Form 1099 Box 3 Return of Capital (\$ per share)	Form 1099 Box 5 Section 199A Dividends (\$ per share)
12/29/2017	1/12/2018	\$ 0.275	\$ 0.2298	\$ —	—\$0.0452	\$ 0.2298
3/30/2018	4/13/2018	0.275	0.2298	—	0.0452	0.2298
6/29/2018	7/13/2018	0.275	0.2298	—	0.0452	0.2298
9/28/2018	10/12/2018	0.275	0.2298	—	0.0452	0.2298
Totals		\$ 1.1000	\$ 0.9192	\$ —	—\$0.1808	\$ 0.9192

We intend to pay regular quarterly dividends to our stockholders, although future distributions will be declared and paid at the discretion of the Board of Directors and will depend upon cash generated by operating activities, our financial condition, capital requirements, annual distribution requirements under the REIT provision of the Code and such other factors as the Board of Directors deems relevant.

Holders

As of February 15, 2019, there were approximately 9,015 registered holders of record of our common stock.

Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Company and Affiliated Purchasers

None.

Equity Compensation Plan

For information about our equity compensation plan, please see Note 10 of our consolidated financial statements, included in Part II, Item 8 of this Annual Report on Form 10-K.

Performance Graph

The following performance graph compares, for the period from November 10, 2015, the date the Company's shares of common stock began trading on the New York Stock Exchange, through December 31, 2018, the cumulative total stockholder return on the Company's common stock, based on the market price of the common stock and assuming reinvestments of dividends, with (i) the cumulative total return of the S&P 500 Index, (ii) the cumulative total return of the MSCI US REIT Index ("RMZ") and (iii) the cumulative total return of Dow Jones Industrial Average.

Item 6. Selected Financial Data.

The following selected historical financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017, and 2016, and the related notes included elsewhere in this Annual Report on Form 10-K.

The Company completed the Spin-Off on November 9, 2015. Due to the timing of the Spin-off, the Company presents herein consolidated financial data for the Company from the date of consummation of the Spin-off through December 31, 2015 and for the Kerrow Restaurant Operating Business for all periods. Our real estate operations business was not operated by Darden as a stand-alone business and, accordingly, there are no historical results of operations related to that business. The Kerrow Restaurant Operating Business and our real estate operations business were not legal entities, but rather a portion of the real estate assets, liabilities and operations of Darden. The historical financial data for Kerrow Restaurant Operating Business is not necessarily indicative of the Company's results of operations, cash flows or financial position following the completion of the Spin-Off.

The selected historical financial information as of and for the years ended December 31, 2018, 2017, 2016, 2015, and 2014 has been derived from our audited historical financial statements. The Comprehensive Income Statement include allocations of certain costs from Darden incurred on the Kerrow Restaurants Operating Business' behalf. Management considers the allocation methodologies used to be reasonable and appropriate reflections of the historical Darden expenses allocable to the Kerrow Restaurants Operating Business for purposes of the combined financial statements. However, the expenses reflected in the combined financial statements may not be indicative of the actual expenses that would have been incurred during the periods presented if the Kerrow Restaurants Operating Business had operated as a separate, stand-alone entity. Due to the timing of the Spin-Off, the results of operations for the year ended December 31, 2014 reflect the financial condition and results of operations of Kerrow Restaurant Operating Business. The results of operations for the years ended December 31, 2018, 2017, 2016, and 2015 reflect the financial condition and results of operations of the Company, together with the Kerrow Restaurant Operating Business prior to the Spin-Off.

Operating Data

(In thousands, except per share data)	Year Ended December 31,				
	2018	2017	2016	2015	2014
Revenues	\$ 143,635	\$ 133,209	\$ 124,018	\$ 33,456	\$ 17,695
Net income available to common shareholders ⁽¹⁾	\$ 82,398	\$ 71,394	\$ 156,809	\$ 5,699	\$ 32
Earnings per share:					
Basic	\$ 1.29	\$ 1.18	\$ 2.75	\$ 0.92	NA
Diluted	\$ 1.28	\$ 1.18	\$ 2.63	\$ 0.91	NA
Cash dividends declared per share of common stock	\$ 1.1125	\$ 1.0025	\$ 0.97	NA	NA

⁽¹⁾ For the year ended December 31, 2016, net income available to common shareholders includes a deferred tax benefit of \$80.4 million resulting from our REIT election.

Balance Sheet Data

(In thousands)	At December 31,				
	2018	2017	2016	2015	2014
Real estate investments:					
Land	\$569,057	\$449,331	\$421,941	\$404,812	\$3,069
Buildings, equipment and improvements	1,236,224	1,115,624	1,055,624	992,418	12,513
Total real estate investments	1,805,281	1,564,955	1,477,565	1,397,230	15,582
Less: accumulated depreciation	(614,584)	(598,846)	(583,307)	(568,539)	(3,860)
Total real estate investments, net	\$1,190,697	\$966,109	\$894,258	\$828,691	\$11,722
Total assets	\$1,343,098	\$1,068,659	\$937,151	\$929,437	\$11,949
Total liabilities	644,134	546,391	467,034	487,795	2,951
Total equity	698,964	522,268	470,117	441,642	8,998

Other Statistics

(In thousands)	Year Ended December 31,				
	2018	2017	2016	2015	2014
Cash flows provided by operating activities	\$80,882	\$78,909	\$70,939	\$21,693	\$961
Cash flows used in investing activities	(247,046)	(80,414)	(59,322)	(556)	(55)
Cash flows provided by (used in) financing activities	190,034	44,197	(83,047)	76,929	(906)

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Statements contained in this Annual Report on Form 10-K, 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, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (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”. These 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K. Any references to “FCPT,” “the Company,” “we,” “us,” or “our” refer to Four Corners Property Trust, Inc. as an independent, publicly traded, self-administered company.

Overview

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

Our revenues are primarily generated by leasing properties to Darden and other tenants through net lease arrangements under which the tenants are primarily responsible for ongoing costs relating to the properties, including utilities, property taxes, insurance, common area maintenance charges, and maintenance and repair costs. We focus on income producing properties leased to high quality tenants in major markets across the United States. We also generate revenues by operating six LongHorn Steakhouse restaurants, including the properties or interests associated with such restaurants, located in the San Antonio, Texas area (the “Kerrow Restaurant Operating Business”) pursuant to franchise agreements with Darden.

In addition to managing our existing properties, our strategy includes investing in additional restaurant and food service real estate properties to grow and diversify our existing restaurant portfolio. We expect this acquisition strategy will decrease our reliance on Darden over time. We intend to purchase properties that are well located, occupied by durable restaurant concepts, with creditworthy tenants whose operating cash flows are expected to meaningfully exceed their lease payments to us. We seek to improve the probability of successful tenant renewal at the end of initial lease terms by acquiring properties that have high levels of restaurant operator profitability compared to rent payments and have absolute rent levels that are not artificially higher than market rates.

In 2018, FCPT engaged in various real estate transactions for a total investment of \$268.3 million, including capitalized transaction costs. Pursuant to these transactions, we acquired an additional 97 properties, aggregating 543 thousand square feet, and representing twenty brands, including Chili’s Grill & Bar, Red Lobster, Buffalo Wild Wings, Starbucks, Chick-fil-A, McDonald’s, Taco Bell, Texas Roadhouse, and BJ’s Restaurants. During the same period, FCPT sold two properties for \$21.1 million, net of transaction costs. The proceeds from the sales were used for subsequent acquisitions via 1031 exchange transactions.

As of December 31, 2018, our wholly-owned lease portfolio had the following characteristics:

- 610 free-standing properties located in 45 states and representing an aggregate leasable area of 4.1 million square feet;
- 99.9% occupancy (based on leasable square footage);
- An average remaining lease term of 12.2 years (weighted by annualized base rent);
- An average annual rent escalation of 1.5% through December 31, 2028 (weighted by annualized base rent); and
- 77.2% investment-grade tenancy (weighted by annualized base rent).

Results of Operations

The results of operations for the accompanying consolidated financial statements discussed below are derived from our consolidated statements of comprehensive income (“Comprehensive Income Statement”) found elsewhere in this Annual Report on Form 10-K. The following discussion includes the results of our continuing operations as summarized in the table below.

(In thousands)	Year Ended December 31,		
	2018	2017	2016
Revenues:			
Rental	\$ 123,665	\$ 113,937	\$ 105,624
Restaurant	19,970	19,272	18,394
Total revenues	143,635	133,209	124,018
Operating expenses:			
General and administrative	13,639	12,259	10,977
Depreciation and amortization	23,884	21,811	20,577
Restaurant expenses	19,014	18,652	17,853
Interest expense	19,959	19,469	14,828
Total operating expenses	76,496	72,191	64,235
Other income, net	781	324	97
Realized gain on sale, net	15,271	10,532	16,623
Income before income taxes	83,191	71,874	76,503
Income tax (expense) benefit	(262)	18	80,347
Net income	82,929	71,892	156,850
Net income attributable to noncontrolling interest	(531)	(498)	(41)
Net Income Available to Common Shareholders	\$ 82,398	\$ 71,394	\$ 156,809

Analysis of Results of Operations

We operate in two segments, real estate operations and restaurant operations. Our real estate operations generate rental income from leases primarily with restaurant brands, which we recognize on a straight-line basis to include the effect of base rent escalators. Our restaurant operations generate restaurant revenue from operating six Longhorn Steakhouse restaurants.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Rental Revenue

Rental revenue increased \$9.7 million during the year ended December 31, 2018 compared to the year ended December 31, 2017. This increase is due to recognizing a full year of revenue from the acquisitions completed in 2017 during 2018, and the acquisition of 97 restaurant properties in 2018, which was partially offset by the sale of two restaurant properties, resulting in a net addition of annualized rental income of \$16.0 million for the year ended December 31, 2018.

Operating Expenses

General and Administrative Expense

General and administrative expense is comprised of costs associated with personnel, office rent, legal, accounting, information technology and other professional and administrative services in association with our real estate operations, our REIT structure and public company reporting requirements. General and administrative expense increased \$1.4 million in the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily as a result of an increase in non-cash stock compensation expense.

Depreciation and Amortization Expense

Depreciation and amortization expense represents the depreciation on real estate investments and equipment that have estimated lives ranging from 2 to 55 years. Depreciation and amortization expense increased by approximately \$2.1 million for

the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily due to impairment expense of \$1.5 million recorded in the year ended December 31, 2018 as well as the acquisition of 97 properties classified as depreciable assets in 2018.

Interest Expense

We incur interest expense on our \$400 million of term loans, any outstanding borrowings on our revolving credit facility, interest rate swaps, and our \$225 million of senior unsecured fixed rate notes.

Interest expense increased by approximately \$0.5 million for the year ended December 31, 2018 compared to the year ended December 31, 2017. This was primarily due to an increase of \$2.9 million in interest expense for the full year on the \$125 million of FCPT OP's 4.68% senior unsecured fixed rate notes due 2024 and 4.93% senior unsecured fixed rate notes due 2027 issued in June 2017, offset by a decrease of \$1.5 million of term loan interest expense and \$0.9 million of revolving credit facility expense, respectively, due to amended term loan margin pricing and drawdowns and repayments of the revolving credit facility.

Interest expense, excluding deferred financing costs, on the \$400 million of term loans and the interest rate swaps we entered into to hedge the variability associated with the term loans was \$11.2 million and \$12.2 million for the years ended December 31, 2018 and 2017, respectively. This interest expense includes hedge ineffectiveness incurred during the periods and the reclassification of other comprehensive income into interest expense. Interest expense from term loans decreased from 2017 to 2018 as a result of the Credit Facility Amendment (defined below). Interest expense and fees on our revolving credit facility was \$0.8 million and \$1.7 million, for the years ended December 31, 2018 and 2017, respectively. Amortization of deferred financing costs was \$1.8 million and \$2.1 million, respectively, for the years ended December 31, 2018 and 2017. For the year ended December 31, 2017, interest expense included a one-time write-off of \$424 thousand for deferred financing costs as a result of the the Credit Facility Amendment. For additional information on the Company's debt instruments, see "Liquidity and Financial Condition" below.

Realized Gain on Sale, Net

Realized gain on sale, net increased by approximately \$4.8 million for the year ended December 31, 2018 compared to the year ended December 31, 2017. During the years ended December 31, 2018 and 2017, the Company sold two and three properties, respectively, leased to Darden for total consideration of \$21.7 million and \$16.1 million, respectively, exclusive of \$0.6 million and \$0.2 million costs to sell, respectively. The sales were the result of unsolicited offers and resulted in net gains of \$15.3 million and \$10.5 million, respectively, after costs to sell. These sales qualified as 1031 exchanges, and the consideration received was used to purchase other properties during 2018 and 2019.

Income Taxes

During the years ended December 31, 2018 and 2017, our income tax expense was \$262 thousand and a benefit of \$18 thousand, respectively. Income tax expense consists of federal, state, and local income taxes incurred by the Kerrow Restaurant Operating Business, and state and local income taxes incurred by FCPT on its lease portfolio. As FCPT acquires additional properties in states subject to state income taxes, income tax expense will continue to increase.

Restaurant Operations

The following table sets forth our restaurant operating segment revenues and expenses data for the periods indicated.

(Dollars in thousands)	Year Ended December 31,								
	2018			2017			2016		
	\$	% of	\$	% of	\$	% of	\$	% of	\$
		Segment		Segment		Segment		Segment	
		Revenues		Revenues		Revenues		Revenues	
Restaurant revenues	\$ 19,970	100.0 %	\$ 19,272	100.0 %	\$ 18,394	100.0 %			
Restaurant expenses:									
Food and beverage	7,594	38.0 %	7,404	38.4 %	7,213	39.2 %			
Restaurant labor	6,180	30.9 %	6,062	31.5 %	5,391	29.3 %			
Other restaurant expenses ⁽¹⁾	5,641	28.2 %	5,581	29.0 %	5,638	30.7 %			
Total restaurant expenses	19,415	97.2 %	19,047	98.8 %	18,242	99.2 %			
Restaurant Operations, Net	\$ 555		\$ 225		\$ 152				

(1) Other restaurant expenses include \$401 thousand, \$395 thousand, and \$389 thousand, respectively, of intercompany rent paid to FCPT for the years ended December 31, 2018, 2017, and 2016, which is eliminated for financial reporting purposes.

Restaurant revenues increased approximately \$0.7 million in the year ended December 31, 2018 compared to the year ended December 31, 2017, driven primarily by a 1.2% increase in the average meal check and a 2.3% increase in average guest counts. The increase in average meal check amounts for 2018 was primarily due to an increase in dessert sales through better offerings, meal check add-ons, and a small price increase taken in September. Increased to-go orders, catering, and local marketing impacted guest count growth.

Total restaurant expenses increased approximately \$0.4 million in the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily due to increased administrative overhead. As a percent of revenues, total restaurant expenses decreased from 98.8% in the year ended December 31, 2017 to 97.2% in the year ended December 31, 2018. Food and beverage costs increased approximately \$0.2 million in the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily due to increased sales year over year, along with a 0.4% improvement in cost of sales compared to 2017.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Rental Revenue

Rental revenue increased \$8.3 million during the year ended December 31, 2017 compared to the year ended December 31, 2016. This increase is due to recognizing a full year of revenue from the acquisitions completed in 2016 during 2017 and the acquisition of 43 restaurant properties in 2017, which was partially offset by the sale of 3 restaurant properties, resulting in a net addition of annualized rental income of \$5.9 million for the year ended December 31, 2017.

Operating Expenses

General and administrative expense is comprised of costs associated with personnel, office rent, legal, accounting, information technology and other professional and administrative services in association with our real estate operations and our REIT structure and public company reporting requirements. General and administrative expense increased \$1.3 million in the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily as a result of an increase in non-cash stock compensation expense.

Depreciation and amortization expense represents the depreciation on real estate investments and equipment that have estimated lives ranging from 2 to 55 years. Depreciation and amortization expense increased by approximately \$1.2 million for the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily due to the acquisition of 43 properties classified as depreciable assets in 2017.

Interest Expense

Interest expense increased by approximately \$4.6 million for the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to interest expense on the \$125 million of senior unsecured fixed rate notes issued in 2017, which was \$3.4 million for the year ended December 31, 2017. Additionally, amortization of deferred financing costs related to the senior unsecured fixed rate notes was \$123 thousand for the year ended December 31, 2017. Interest expense also increased due to a one-time charge of \$424 thousand for deferred financing costs expensed as a result of the execution of the amended and restated credit agreement on October 2, 2017.

Interest expense on the \$400 million term loan and the interest rate swaps entered into to hedge the variability associated with the term loan was \$12.2 million and \$11.8 million for the years ended December 31, 2017 and 2016, respectively. This interest expense includes hedge ineffectiveness incurred during the periods and the reclassification of other comprehensive income into interest expense. Interest expense and fees on our revolving credit facility was \$1.7 million and \$1.4 million, for the years ended December 31, 2017 and 2016, respectively. Amortization of deferred financing costs was \$2.1 million and \$1.6 million, respectively, for the years ended December 31, 2017 and 2016.

For additional information on the Company's debt instruments, see "Liquidity and Financial Condition" below.

Realized Gain on Sale, Net

Realized gain on sale, net decreased by approximately \$6.1 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. During the years ended December 31, 2017 and 2016, the Company sold three and two properties, respectively, leased to Darden for total consideration of \$16.1 million and \$24.8 million, respectively, exclusive of \$0.2 million and \$0.7 million costs to sell, respectively. The sales were the result of unsolicited offers and resulted in net gains of \$10.5 million and \$16.6 million, respectively, after costs to sell. These sales qualified as 1031 exchanges, and the consideration received was used to purchase other properties in the fourth quarter of 2017 and future periods.

Income Taxes

During the years ended December 31, 2017 and 2016 our income tax benefit was \$18 thousand and \$80.4 million, respectively. The income tax benefit for the year ended December 31, 2017 primarily consisted of the reversal of deferred tax liabilities offset by state taxes incurred at the Kerrow Restaurant Operating Business, a taxable REIT subsidiary. The income tax benefit recognized during the year ended December 31, 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 a earnings and profit purging distribution to our shareholders and our election to be taxed as a REIT commencing with the year ending December 31, 2016.

Restaurant Operations

Restaurant revenues increased approximately \$0.9 million in the year ended December 31, 2017 compared to the year ended December 31, 2016, driven primarily by a 2.8% increase in the average meal check and a 1.9% increase in average guest counts. The increase in average meal check amounts for 2017 was primarily due to the addition of higher-end entrées, increased liquor sales and meal check-add-ons, and price increases.

Total restaurant expenses increased approximately \$0.8 million in the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to an increase in hourly wages, increased management overhead, and a change in incentive compensation structure. As a percent of revenues, total restaurant expenses decreased from 99.2% in the year ended December 31, 2016 to 98.8% in the year ended December 31, 2017. Food and beverage costs increased approximately \$0.2 million in the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to increased sales year over year. Other restaurant expenses decreased approximately \$0.1 million in the year ended December 31, 2017 compared to the year ended December 31, 2016, primarily due to a reduction of one-time Spin-Off expenses.

Critical Accounting Policies and Estimates

The preparation of FCPT's consolidated financial statements in conformance with accounting principles generally accepted in the United States of America requires management to make estimates on assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as other disclosures in the financial statements. On an ongoing basis, management

evaluates its estimates and assumptions; however, actual results may differ from these estimates and assumptions, which in turn could have a material impact on our financial statements. Estimates and assumptions include, among other things, subjective judgments regarding the fair values and useful lives of our properties for depreciation and lease classification purposes, and asset impairment analysis.

A summary of FCPT's accounting policies and procedures are included in Note 2 of our consolidated financial statements, included in Part II, Item 8 of this Annual Report on Form 10-K. Management believes the following critical accounting policies, among others, affect its more significant estimates and assumptions used in the preparation of our consolidated financial statements.

Real Estate Investments, Net

Real estate investments, net are recorded at cost less accumulated depreciation. Building components are depreciated over estimated useful lives using the straight-line method. Leasehold improvements, which are reflected on our Consolidated Balance Sheets as a component of buildings, within land, buildings and equipment, net, are amortized over the lesser of the non-cancelable lease term or the estimated useful lives of the related assets using the straight-line method. Equipment is depreciated over estimated useful lives also using the straight-line method. Real estate development and construction costs for newly constructed restaurants are capitalized in the period in which they are incurred. Gains and losses on the disposal of land, buildings and equipment are included in our accompanying consolidated statements of income ("Income Statement").

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

Acquisition of Real Estate

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

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

Lease Intangibles

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

In-place lease intangibles are amortized on a straight-line basis over the remaining initial term of the related lease and included in depreciation and amortization expense. Above-market lease intangibles are amortized over the remaining initial terms of the respective leases as a decrease in rental revenue. Below-market lease intangibles are generally amortized as an increase to rental revenue over the remaining initial term of the respective leases, but may be amortized over the renewal periods if the Company believes it is likely the tenant will exercise the renewal option. Should a lease terminate early, the unamortized portion of any related lease intangible is immediately recognized as an impairment loss included in depreciation and amortization expense. To date, the Company has not had significant early terminations.

Impairment of Long-Lived Assets

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

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

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

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 Sheets 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 currently in earnings in the period in which it occurs.

Revenue Recognition

Effective January 1, 2018, the Company adopted FASB ASU No. 2014-09, "Revenue from Contracts with Customers" using the modified retrospective method. The standard outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity

should recognize revenue for the transfer of

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promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those goods or services. Effective January 1, 2018, the Company also adopted FASB ASU No. 2017-05, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." Through the evaluation and implementation process, we have determined FCPT's key revenue stream that could be impacted by FASB ASU No. 2014-09, as amended by FASB ASU No. 2017-05, is the gain on disposition of real estate reported on the Income Statements and Comprehensive Income Statement. We previously recognized revenue from asset sales, upon satisfaction of the criteria set forth in ASC 360, usually at the time of closing (i.e., transfer of asset). After adoption of FASB No. ASU 2014-09, as amended by FASB ASU No. 2017-05, we will evaluate the transaction to determine if control of the asset, as well as other specified criteria, has been transferred to the buyer to determine proper timing of revenue recognition, as well as transaction price allocation. Adoption of this guidance did not have a material impact on our Consolidated Financial Statements or related disclosures.

Rental Revenue

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

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

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

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 of our consolidated financial statements, included in Part II, Item 8 of this Annual Report on Form 10-K.

Liquidity and Financial Condition

At December 31, 2018, we had \$92 million of cash and cash equivalents and \$250 million of borrowing capacity under our revolving credit facility. The revolving credit facility provides for a letter of credit sub-limit of \$25 million. As of February 19, 2019, we had \$250 million of borrowing capacity under the revolving credit facility.

Debt Instruments

At December 31, 2018, our long-term debt consisted of \$400 million of non-amortizing term loans and \$225 million aggregate principal amount of senior unsecured fixed rate notes issued by FCPT OP. At December 31, 2017, our long-term debt consisted of a \$400 million, non-amortizing term loan and \$125 million aggregate principal amount of senior unsecured fixed rate notes issued by FCPT OP.

On December 13, 2018, the Company and its subsidiary, FCPT OP, entered into Amendment No. 2 to Amended and Restated Revolving Credit and Term Loan Agreement (the “Credit Facility Amendment”) with JPMorgan Chase Bank, N.A., as administrative agent (the “Agent”), and the lenders (the “Lenders”) and other agents party thereto, which amended the existing Amended and Restated Revolving Credit and Term Loan Agreement, dated as of October 2, 2017, as amended (the “Credit Agreement”), by and among the Company, FCPT OP, the Agent, the Lenders and the other agents party thereto.

Prior to the Credit Facility Amendment, \$400 million aggregate principal amount outstanding under the Company's term loan facility was scheduled to mature on November 9, 2022. The Credit Facility Amendment extends the maturity date of certain of the Company's term loan facility such that \$150 million, the non-extended portion of the term loan facility, will mature on November 9, 2022, \$150 million will mature on November 9, 2023, and \$100 million will mature on March 9, 2024. The interest rate charged on the non-extended portion of the term loan facility remained unchanged; however, as of the date of the Credit Facility Amendment, the interest rate charged on the extended portions of the term loan facility was reduced by ten basis points from the interest rate charged prior to the Credit Facility Amendment. The aggregate principal amount of \$400 million outstanding under the term loan facility prior to the Credit Facility Amendment as well as the lenders and allocation by lender remained unchanged. The revolving credit facility portion was not amended and remained unchanged, maturing on November 9, 2021 with a one year extension option.

At December 31, 2018 and 2017, the weighted average interest rate on the term loans, after consideration of the interest rate hedges, was 3.14% and 2.71%, respectively. As of December 31, 2018 and 2017, there were no outstanding borrowings under the revolving credit facility and no outstanding letters of credit.

We have entered into interest rate swaps to hedge the interest rate variability associated with the Credit Agreement.

On November 9, 2015, we entered into two interest rate swaps with aggregate notional values totaling \$400 million. One swap had a fixed notional value of \$200 million that matured on November 9, 2018, where the fixed rate paid by FCPT OP was 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 million that matures on November 9, 2020, where the fixed rate paid by FCPT OP is 1.56% and the variable rate received resets monthly to the one month LIBOR rate. On July 12, 2017, we entered into a swap with a fixed notional value of \$100 million, an effective date of November 9, 2018, and a maturity date of November 9, 2021, where the fixed rate paid by FCPT OP is 1.960% and the variable rate received resets monthly to the one month LIBOR rate. On July 12, 2017, we entered into a swap with a fixed notional value of \$100 million, an effective date of November 9, 2020, a maturity date of November 9, 2023, where the fixed rate paid by FCPT OP is 2.302% and the variable rate received resets monthly to the one-month LIBOR rate. A fifth swap, which was entered into on August 29, 2017, is a 10-year swap with a fixed notional value of \$100 million for its first twelve months and \$200 million for its second twelve months with an effective date of November 9, 2020, a maturity date of November 9, 2022 and where the fixed rate paid by FCPT is 2.002% and the variable rate received resets monthly to the one month LIBOR rate.

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

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

Financing Strategy

On a short-term basis, our principal demands for funds will be for operating expenses, distributions to stockholders and interest and principal on current and any future debt financings. We expect to fund our operating expenses and other short-term liquidity requirements, capital expenditures, payment of principal and interest on our outstanding

indebtedness, property improvements, re-leasing costs and cash distributions to common stockholders, primarily through cash provided by operating activities, and, for acquisitions, investments, and other capital expenditures, from borrowings under our \$250 million revolving credit facility.

In August 2018, the Company completed a stock offering pursuant to which we sold 4,025,000 shares of our common stock, par value \$0.01 per share, at a price of \$25.00 per share. We raised \$100.6 million in aggregate gross proceeds.

We have an effective shelf registration statement on file with the SEC under which we may issue equity financing through the instruments and on the terms most attractive to us at such time. During 2018, we sold 2,716,090 shares under the “At-the-Market” (“ATM”) program at a weighted-average selling price of \$24.68 per share, for net proceeds of approximately \$65.5 million (after issuance costs). The net proceeds were employed to fund acquisitions and for general corporate purposes. At December 31, 2018, there was \$49.5 million available for issuance under the ATM program.

On a long-term basis, our principal demands for funds include payment of dividends, financing of property acquisitions and scheduled debt maturities. We plan to meet our long-term capital needs by issuing debt or equity securities or by obtaining asset level financing, subject to market conditions. In addition, we may issue common stock to permanently finance properties that were financed on an intermediate basis by our revolving credit facility or other indebtedness. In the future, we may also acquire properties by issuing partnership interests of our operating partnership in exchange for property owned by third parties. Our common partnership interests would be redeemable for cash or shares of our common stock. In addition, we plan to use the proceeds from any future sales we may make for subsequent acquisitions via a 1031 exchange.

We continually evaluate alternative financing and believe that we can obtain financing on reasonable terms. However, we cannot assure you that we will have access to the capital markets at times and at terms that are acceptable to us. Because the properties in our portfolio are generally leased to tenants under net leases, where the tenant is responsible for property operating costs and expenses, our exposure to rising property operating costs due to inflation is mitigated. Interest rates and other factors, such as occupancy, rental rate and the financial condition of our tenants, influence our performance more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. As described above, we currently offer leases that provide for payments of base rent with scheduled annual fixed increases.

Contractual Obligations

The following table provides information with respect to our commitments as of December 31, 2018. The table does not reflect available debt or operating lease extensions.

(In millions)	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years	Total
Long-term debt ⁽¹⁾	\$—	\$—	\$150.0	\$475.0	\$625.0
Interest payments on long-term obligations ⁽²⁾	23.8	47.4	49.7	24.0	144.9
Commitments under non-cancellable operating leases	0.5	0.5	—	—	1.0
Total Contractual Obligations and Commitments	\$24.3	\$47.9	\$199.7	\$499.0	\$770.9

(1) Long-term debt includes the \$400 million of term loans and \$225 million of senior unsecured fixed rate notes.

(2) Interest payments computed using the all-in rate as of December 31, 2018 of 2.98% for \$300 million of the term loan that is hedged and 3.68% for the \$100 million of the term loan that is unhedged using the December 31, 2018 LIBOR. The payments also assume on undrawn commitment fee of 0.30% on the \$250 million revolving credit facility. Interest on private placement notes is calculated at 4.68%, 4.93%, 4.63%, and 4.76% on the \$50 million June 2024, \$75 million June 2027, \$50 million December 2026, and \$50 million December 2028 senior unsecured fixed rate notes, respectively.

Off-Balance Sheet Arrangements

At December 31, 2018, we had no off-balance sheet arrangements.

Supplemental Financial Measures

The following table presents a reconciliation of GAAP net income to Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”) for the years ended December 31, 2018, 2017, and 2016.

(In thousands, except share and per share data)	Year Ended December 31,		
	2018	2017	2016
Net income	\$82,929	\$ 71,892	\$ 156,850
Depreciation and amortization	22,287	21,547	20,550
Realized gain on sales of real estate	(15,271)	(10,532)	(16,623)
Provision for impairment	1,530	228	
Realized gain on exchange of real estate ⁽¹⁾	(228)	—	—
Deferred tax benefit from REIT election	—	—	(80,410)
Funds from Operations (FFO) (as defined by NAREIT)	91,247	83,135	80,367
Straight-line rent adjustment	(9,288)	(9,536)	(10,095)
Non-cash stock-based compensation expense	3,967	2,676	1,550
Non-cash amortization of deferred financing costs	1,834	2,144	1,592
Other non-cash interest expense (income)	29	145	(610)
Non-real estate investment depreciation	67	36	27
Amortization of above and below market leases, net	64	—	—
Adjusted Funds from Operations (AFFO)	\$87,920	\$ 78,600	\$ 72,831
Fully diluted shares outstanding ⁽²⁾	64,798,256	61,014,256	59,607,852
FFO per diluted share	\$ 1.41	\$ 1.36	\$ 1.35
AFFO per diluted share	\$ 1.36	\$ 1.29	\$ 1.22

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

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

Non-GAAP Definitions

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

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. We also omit the tax impact of non-FFO producing activities from FFO determined in accordance with the NAREIT definition.

Our management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We offer this measure because we recognize that FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO

excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures and capitalized leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our financial condition and results from operations, the utility of FFO as a measure of our performance is limited. FFO is a non-GAAP measure and should not be considered a measure of liquidity including our ability to pay dividends or make distributions. In addition, our calculations of FFO are not necessarily comparable to FFO as calculated by other REITs that do not use the same definition or implementation guidelines or interpret the standards differently from us. Investors in our securities should not rely on these measures as a substitute for any GAAP measure, including net income.

Adjusted Funds From Operations (“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. We calculate AFFO by adding to or subtracting from FFO:

1. Transaction costs incurred in connection with the acquisition of real estate investments accounted for as business combinations
2. Non-cash stock-based compensation expense
3. Amortization of deferred financing costs
4. Other non-cash interest (income) expense
5. Non-real estate investment depreciation
6. Merger, restructuring and other related costs
7. Impairment charges on non-real estate assets
8. Amortization of capitalized leasing costs
9. Straight-line rent revenue adjustment
10. Amortization of above and below market leases, net
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 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to financial market risks, especially interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and global economic and political conditions, and other factors which are beyond our control. Our operating results will depend heavily on the difference between the revenue from our assets and the interest expense incurred on our borrowings. We may incur additional variable rate debt in the future, including amounts that we may borrow under our revolving credit facility. We consider certain risks associated with the use of variable rate debt, including those described under “Item 1A. Risk Factors - Risks Related to Our Business - An increase in market interest rates could increase our interest costs on existing and future debt and could adversely affect our stock price, and a decrease in market interest rates could lead to additional competition for the acquisition of real estate, which could adversely affect our results of operations.” The objective of our interest rate risk management policy is to match fund fixed-rate assets with fixed-rate liabilities and variable-rate assets with variable-rate liabilities. As of December 31, 2018, our assets were primarily long-term, fixed-rate leases (though most have scheduled rental increases during the terms of the leases).

As of December 31, 2018, \$225 million of our total indebtedness consisted of senior unsecured fixed rate notes. The remaining \$400 million of our total indebtedness consisted of three to five-year variable-rate obligations for which we have entered into swaps that effectively fix \$300 million through November 2020. We intend to continue our practice of employing interest rate derivative contracts, such as interest rate swaps and futures, to reduce our exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate changes. We do not intend to enter into derivative contracts for speculative or trading purposes. We generally intend to utilize derivative instruments to hedge interest rate risk on our liabilities and not use derivatives for other purposes, such as hedging asset-related risks. We consider certain risks associated with the use of derivative instruments, including those described under “Item 1A. Risk Factors - Risks Related to Our Business - Hedging transactions could have a negative effect on our results of operations.”

Due to the fixed rate nature of \$225 million of our indebtedness and the hedging transactions described above, a hypothetical one percentage point decline in interest rates would not have materially affected our consolidated financial position, results of operations or cash flows as of December 31, 2018.

Item 8. Financial Statements and Supplementary Data.

Financial Statements and Supplementary Data consist of financial statements as indexed on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under 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 December 31, 2018. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) in Internal Control-Integrated Framework. Based on its assessment and those criteria, our management concluded that, as of December 31, 2018 our internal control over financial reporting is effective.

KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this annual report on Form 10-K and, as part of their audit, has issued a report, included herein, on the effectiveness of the Company's internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended December 31, 2018 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Our discussion of federal income tax considerations in Exhibit 99.2 attached hereto, which is incorporated herein by reference, supersedes and replaces, in its entirety, the disclosure under the heading "United States Federal Income Tax Considerations" in Exhibit 99.1 to our Current Report on Form 8-K, filed with the SEC on October 31, 2018 (File No. 001-37538).

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 is incorporated herein by reference to the definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated herein by reference to the definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Owners and Management and Related Stockholder Matters.

The information required by Item 12 is incorporated herein by reference to the definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is incorporated herein by reference to the definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 is incorporated herein by reference to the definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) For Financial Statements, see Index to Financial Statements on page F-1.

(b) For Exhibits, see Index to Exhibits on page E-1.

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Item 16. Form 10-K Summary
None.

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FOUR CORNERS PROPERTY TRUST, INC.
INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Four Corners Property Trust, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Four Corners Property Trust, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes and the financial statement schedule III - Real Estate Assets and Accumulated Depreciation (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 19, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 2015

San Francisco, California

February 19, 2019

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Four Corners Property Trust, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Four Corners Property Trust, Inc.'s and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement schedule III (collectively, the consolidated financial statements), and our report dated February 19, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP
San Francisco, California
February 19, 2019

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FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31,	
	2018	2017
ASSETS		
Real estate investments:		
Land	\$569,057	\$449,331
Buildings, equipment and improvements	1,236,224	1,115,624
Total real estate investments	1,805,281	1,564,955
Less: Accumulated depreciation	(614,584)	(598,846)
Real estate investments, net	1,190,697	966,109
Intangible real estate assets, net	18,998	3,835
Total real estate investments and intangible real estate assets, net	1,209,695	969,944
Cash and cash equivalents	92,041	64,466
Straight-line rent adjustment	30,141	21,130
Derivative assets	5,982	4,997
Other assets	5,239	8,122
Total Assets	\$1,343,098	\$1,068,659
LIABILITIES AND EQUITY		
Liabilities:		
Long-term debt, net of deferred financing costs	\$615,892	\$515,539
Dividends payable	19,580	16,843
Rent received in advance	1,609	8,295
Other liabilities	7,053	5,714
Total liabilities	644,134	546,391
Equity:		
Preferred stock, par value \$0.0001 per share, 25,000,000 authorized, zero shares issued and outstanding.	—	—
Common stock, par value \$0.0001 per share; 500,000,000 shares authorized, 68,204,045 and 61,329,489 shares issued and outstanding at December 31, 2018 and 2017, respectively	7	6
Additional paid-in capital	639,116	473,685
Retained earnings	46,018	36,318
Accumulated other comprehensive income	5,956	4,478
Noncontrolling interests	7,867	7,781
Total equity	698,964	522,268
Total Liabilities and Equity	\$1,343,098	\$1,068,659

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

FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share data)

	Year Ended December 31,		
	2018	2017	2016
Revenues:			
Rental	\$ 123,665	\$ 113,937	\$ 105,624
Restaurant	19,970	19,272	18,394
Total revenues	143,635	133,209	124,018
Operating expenses:			
General and administrative	13,639	12,259	10,977
Depreciation and amortization	23,884	21,811	20,577
Restaurant expenses	19,014	18,652	17,853
Interest expense	19,959	19,469	14,828
Total operating expenses	76,496	72,191	64,235
Other income, net	781	324	97
Realized gain on sale, net	15,271	10,532	16,623
Income before income tax	83,191	71,874	76,503
Income tax (expense) benefit	(262) 18	80,347
Net income	82,929	71,892	156,850
Net income attributable to noncontrolling interest	(531) (498) (41
Net Income Available to Common Shareholders	\$ 82,398	\$ 71,394	\$ 156,809
Basic net income per share:	\$ 1.29	\$ 1.18	2.75
Diluted net income per share:	\$ 1.28	\$ 1.18	2.63
Weighted average number of common shares outstanding:			
Basic	64,041,255	60,627,423	56,984,561
Diluted	64,388,929	60,695,834	59,568,067
Dividends declared per common share	\$ 1.1125	\$ 1.0025	\$ 0.9700

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

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FOUR CORNERS PROPERTY TRUST, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income	\$82,929	\$71,892	\$156,850
Realized and unrealized gain on hedging instruments	1,022	4,297	540
Comprehensive income	83,951	76,189	157,390
Less: comprehensive income attributable to noncontrolling interest	(542)	(524)	(58)
Comprehensive Income Attributable to Common Shareholders	\$83,409	\$75,665	\$157,332

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

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FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	Shares	Amount					
Balance at December 31, 2015	42,741,995	\$ 4	\$ 436,697	\$ 5,257	\$ (316)	\$ —	\$ 441,642
Issuance of OP units	—	—	—	—	—	5,039	5,039
Net income	—	—	—	156,809	—	41	156,850
Realized and unrealized gain on derivative instruments	—	—	—	—	523	17	540
Earnings and profits distribution	17,085,566	2	(2)	(78,076)	—	—	(78,076)
Dividends paid and declared on common stock	—	—	—	(58,047)	—	—	(58,047)
ATM proceeds, net of issuance costs	32,513	—	640	—	—	—	640
Stock-based compensation, net	63,483	—	1,529	—	—	—	1,529
Balance at December 31, 2016	59,923,557	6	438,864	25,943	207	5,097	470,117
Issuance of OP units	—	—	—	—	—	2,620	2,620
Net income	—	—	—	71,394	—	498	71,892
Realized and unrealized gain on derivative instruments	—	—	—	—	4,271	26	4,297
Dividends and distributions paid and declared on common stock and OP units	—	—	—	(61,019)	—	(460)	(61,479)
ATM proceeds, net of issuance costs	1,347,010	—	32,145	—	—	—	32,145
Stock-based compensation, net	58,922	—	2,676	—	—	—	2,676
Balance at December 31, 2017	61,329,489	6	473,685	36,318	4,478	7,781	522,268
ASU 2017-12 Transition Adjustment	—	—	—	(467)	467	—	—
Net income	—	—	—	82,398	—	531	82,929
Realized and unrealized gain on derivative instruments	—	—	—	—	1,011	11	1,022
Equity offering, net of issuance costs	4,025,000	1	96,324	—	—	—	96,325
Dividends and distributions paid and declared on common stock and OP units	—	—	—	(72,231)	—	(456)	(72,687)
ATM proceeds, net of issuance costs	2,716,090	—	65,533	—	—	—	65,533
Stock-based compensation, net	133,466	—	3,574	—	—	—	3,574
Balance at December 31, 2018	68,204,045	\$ 7	\$ 639,116	\$ 46,018	\$ 5,956	\$ 7,867	\$ 698,964

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

FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows - operating activities			
Net income	\$82,929	\$71,892	156,850
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	22,354	21,547	20,577
Impairment of long-lived assets	1,530	228	—
Gain on disposal of land, building, and equipment	(15,271)	(10,532)	(16,623)
Gain on exchange of non-financial assets	(228)	—	—
Amortization of financing costs	1,834	2,144	1,592
Stock-based compensation expense	3,967	2,676	1,550
Deferred income taxes	—	(196)	(80,685)
Changes in assets and liabilities:			
Derivative assets and liabilities	29	145	(609)
Straight-line rent adjustment	(9,288)	(9,536)	(10,095)
Rent received in advance	(6,686)	321	34
Other assets and liabilities	(288)	220	(1,652)
Net cash provided by operating activities	80,882	78,909	70,939
Cash flows - investing activities			
Purchases of operating real estate	(268,266)	(95,112)	(83,263)
Net proceeds from sale of operating real estate	21,139	15,645	24,091
Advance deposits on acquisition of operating real estate	81	(947)	(150)
Net cash used in investing activities	(247,046)	(80,414)	(59,322)
Cash flows - financing activities			
Net proceeds from ATM equity issuance	65,533	32,145	640
Net proceeds from equity offering	96,325	—	—
Proceeds from issuance of senior notes	100,000	125,000	—
Payment of deferred financing costs	(1,481)	(5,500)	—
Proceeds from revolving credit facility	25,000	36,000	45,000
Repayment of revolving credit facility	(25,000)	(81,000)	—
Payment of dividend to shareholders	(69,494)	(58,695)	(121,604)
Distribution to non-controlling interests	(456)	(460)	—
Redemption of non-controlling interests	—	(988)	—
Repayment of debt assumed in purchase of real estate investments	—	(2,305)	(7,083)
Shares withheld for taxes upon vesting	(393)	—	—
Net cash provided by (used in) financing activities	190,034	44,197	(83,047)
Net increase (decrease) in cash and cash equivalents, including restricted cash	23,871	42,692	(71,430)
Cash and cash equivalents, including restricted cash, beginning of year	69,371	26,643	98,073
Cash and cash equivalents, including restricted cash, ending of year	\$93,242	\$69,371	\$26,643
Supplemental disclosures:			
Interest paid	\$14,180	\$14,102	\$13,493
Taxes paid	\$470	\$561	\$2,168
Non - cash investing and financing activities:			
Dividends declared but not paid	\$19,580	\$16,843	\$14,519
Debt assumed in acquisition of real estate investments	\$—	\$2,305	\$7,083
Change in fair value of derivative instruments	\$993	\$4,152	\$1,149
Operating partner units issued in exchange for real estate investments	\$—	\$3,609	\$5,039

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

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

Noncontrolling Interest

Noncontrolling interest represents the aggregate limited partnership interests in FCPT OP held by third parties. In accordance with GAAP, the noncontrolling interest of FCPT OP is shown as a component of equity on our Consolidated Balance Sheets, and the portion of income allocable to third parties is shown as net income attributable to noncontrolling interests in our consolidated statements of income (“Income Statements”) and consolidated statements of comprehensive income (“Comprehensive Income Statement”). The Company follows the guidance issued by the FASB regarding the classification and measurement of redeemable securities. At FCPT OP’s option, it may satisfy this redemption with cash or by exchanging non-registered shares of FCPT common stock on a one-for-one basis.

Accordingly, the Company has determined that the common OP units meet the requirements to be

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

classified as permanent equity. A reconciliation of equity attributable to noncontrolling interest is disclosed in our consolidated statement of changes in equity.

Use of Estimates

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

Real Estate Investments, Net

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

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

Acquisition of Real Estate

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

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

Lease Intangibles

Lease intangibles, if any, acquired in conjunction with the purchase of real estate represent the value of in-place leases and above- or below-market leases. For real estate acquired subject to existing lease agreements, acquired lease intangibles are valued based on the Company's estimates of costs related to tenant acquisition and the asset carrying costs, including lost revenue, that would be incurred during the time it would take to locate a tenant if the property were vacant, considering current market conditions

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

and costs to execute similar leases at the time of the acquisition. Above-market and below-market lease intangibles are recorded based on the present value of the difference between the contractual amounts to be paid pursuant to the leases at the time of acquisition of the real estate and the Company's estimate of current market lease rates for the property, measured over a period equal to the remaining initial term of the lease.

In-place lease intangibles are amortized on a straight-line basis over the remaining initial term of the related lease and included in depreciation and amortization expense. Above-market lease intangibles are amortized over the remaining initial terms of the respective leases as a decrease in rental revenue. Below-market lease intangibles are generally amortized as an increase to rental revenue over the remaining initial term of the respective leases, but may be amortized over the renewal periods if the Company believes it is likely the tenant will exercise the renewal option. Should a lease terminate early, the unamortized portion of any related lease intangible is immediately recognized as an impairment loss included in depreciation and amortization expense. To date, the Company has not had significant early terminations.

Impairment of Long-Lived Assets

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

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

Exit or disposal activities include the cost of disposing of the assets and are generally expensed as incurred. Upon disposal of the assets, any gain or loss is recorded in the same caption within our Comprehensive Income Statement as the original impairment. Provisions for impairment are included in depreciation and amortization expense.

During the years ended December 31, 2018 and 2017, we recorded impairment expense of \$1.5 million and \$228 thousand, respectively, due to the bankruptcy and court ordered termination of a lease by one tenant. No impairments were recorded in 2016. These amounts are included in depreciation and amortization in the accompanying Income Statements.

Real Estate Held for Sale

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

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. Restricted cash consists of 1031 exchange proceeds and is included in Other assets on our Consolidated Balance Sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(In thousands)	December 31,		
	2018	2017	2016
Cash and cash equivalents	\$92,041	\$64,466	\$26,643
Restricted cash (included in Other assets)	1,201	4,905	—
Total Cash, Cash Equivalents, and Restricted Cash	\$93,242	\$69,371	\$26,643

Long-term Debt

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

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 Consolidated Balance Sheets.

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

Derivative Instruments and Hedging Activities

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

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

See Note 7 - Derivative Financial Instruments for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other Assets and Liabilities

Other assets primarily consist of pre-acquisition costs, prepaid assets, food and beverage inventories for use by our Kerrow operating subsidiary, escrow deposits, lease origination fees, and accounts receivable. Other liabilities primarily consist of accrued compensation, accrued interest, accrued operating expenses, derivative liabilities, and deferred rent obligations on certain operating leases.

See Note 5 - Supplemental detail for certain components of Consolidated Balance Sheets

Revenue Recognition

Effective January 1, 2018, the Company adopted FASB ASU No. 2014-09, "Revenue from Contracts with Customers" using the modified retrospective method. The standard outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those goods or services. Effective January 1, 2018, the Company also adopted FASB ASU No. 2017-05, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." Through the evaluation and implementation process, we have determined FCPT's key revenue stream that could be impacted by FASB ASU No. 2014-09, as amended by FASB ASU No. 2017-05, is the gain on disposition of real estate reported on the Consolidated Income Statements. We previously recognized revenue from asset sales upon satisfaction of the criteria set forth in ASC 360, usually at the time of closing (i.e., transfer of asset). After adoption of FASB No. ASU 2014-09, as amended by FASB ASU No. 2017-05, we will evaluate the transaction to determine if control of the asset, as well as other specified criteria, has been transferred to the buyer to determine proper timing of revenue recognition, as well as transaction price allocation. Adoption of this guidance did not have a material impact on our Consolidated Financial Statements or related disclosures.

Rental revenue

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

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

We assess the collectability of our lease receivables, including deferred rent receivables. We base our assessment of the collectability of rent receivables (other than deferred rent receivables) on several factors, including payment history, the financial strength of the tenant and any guarantors, the value of the underlying collateral, if any, and current economic conditions. If our evaluation of these factors indicates it is probable that we will be unable to recover the full value of the receivable, we provide a reserve against the portion of the receivable that we estimate may not be recovered. We also base our assessment of the collectability of deferred rent receivables on several factors, including among other things, the financial strength of the tenant and any guarantors, the historical operations and operating trends of the property, the historical payment pattern of the tenant and the type of property. If our evaluation of these factors indicates it is probable that we will be unable to receive the rent payments due in the future, we provide a reserve against the recognized deferred rent receivable asset for the portion, up to its full value, that we estimate may not be recovered. If we change our assumptions or estimates regarding the collectability of future rent payments required by a lease, we may adjust our reserve or reduce the rental revenue recognized in the period we make such change in our assumptions or estimates. Refer to the Application of New Accounting Standards section below for discussion of FASB ASU 2016-02, "Leases (Topic 842)".

Restaurant revenue

Restaurant revenue represents food, beverage, and other products sold and is presented net of the following discounts: coupons, employee meals, complimentary meals and gift cards. Revenue from restaurant sales, whether received in cash or by credit card,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

is recognized when food and beverage products are sold. At December 31, 2018 and 2017, credit card receivables, included in other assets, totaled \$82 thousand and \$90 thousand, respectively. We recognize sales from our gift cards when the gift card is redeemed by the customer. Sales taxes collected from customers and remitted to governmental authorities are presented on a net basis within restaurant revenue on our Income Statements.

Restaurant Expenses

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

Income Taxes

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

The Kerrow Restaurant Operating Business is a TRS and is taxed as a C corporation.

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

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

We base our estimates on the best available information at the time that we prepare the provision. We will generally file our annual income tax returns several months after our year end. Income tax returns are subject to audit by state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws. The major jurisdictions in which we will file income tax returns are the U.S. federal jurisdiction and all states in the U.S. in which we own properties that have an income tax. U.S. GAAP requires that a position taken or expected to be taken in a tax return be recognized (or derecognized) in the financial statements when it is more likely than not (i.e., a likelihood of more than 50 percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. We include within our current tax provision the balance of unrecognized tax benefits related to tax positions for which it is reasonably possible that the total amounts could change during the next 12 months based on the outcome of examinations. See Note 8 - Income Taxes for additional information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Earnings Per Share

Basic earnings per share (“EPS”) are computed by dividing net income allocated to common shareholders by the weighted-average number of common shares outstanding for the reporting period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. No effect is shown for any securities that are anti-dilutive. Net income allocated to common shareholders represents net income less income allocated to participating securities and non-controlling interests.

None of the Company’s equity awards are participating securities.

See Note 9 - Equity for additional information.

Stock-Based Compensation

The Company’s stock-based compensation plan provides for the grant of restricted stock awards (“RSAs”), deferred stock units (“DSUs”), performance-based awards including performance stock units (“PSUs”), dividend equivalents (“DEUs”), restricted stock units (“RSUs”), and other types of awards to eligible participants. DEUs are earned during the vesting period and received upon vesting of award. Upon forfeiture of an award, DEUs earned during the vesting period are also forfeited. We classify stock-based payment awards either as equity awards or liability awards based upon cash settlement options. Equity classified awards are measured based on the fair value on the date of grant. Liability classified awards are remeasured to fair value each reporting period. We recognize costs resulting from the Company’s stock-based compensation awards on a straight-line basis over their vesting periods, which range between one and three years, less forfeitures. No compensation cost is recognized for awards for which employees do not render the requisite services.

Effective January 1, 2017, the Company adopted ASU No. 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which amends how companies account for certain aspects of share-based payments to employees. The new guidance required all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allowed an employer to repurchase more of an employee’s shares than it could prior to adoption for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The Company’s adoption of this guidance did not have a material impact on our Consolidated Financial Statements or related disclosures.

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

Fair Value of Financial Instruments

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

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

Application of New Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. We have completed our initial inventory and evaluation, and upon adoption, we will recognize lease obligations for the three ground leases at our Kerrow Restaurant Operating Business and our corporate office leases, with corresponding right of use assets. We estimate that the right of use assets and lease liabilities to be recognized upon adoption will represent less than 2% of consolidated total assets. We will continue to recognize lease expense for these leases, expected to be included in Restaurant expenses and General and administrative expenses, respectively, in our Income Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

ASU 2016-02 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. In addition, the guidance requires lessors to capitalize and amortize only incremental direct leasing costs. The FASB subsequently issued an amendment that allows entities to present comparative periods, in the year of adoption, under ASC 840, which effectively allows for an initial date of adoption of January 1, 2019. The amendment also provides a practical expedient to lessors that removes the requirement to separate lease and non-lease components, provided certain conditions are met.

We believe the lease component is the predominant component, that the timing and pattern of transfer of our material non-lease components (primarily cost recovery income) are the same as the lease components. Thus the lease component, if it were accounted for separately, would be classified as an operating lease. As such, we believe the adoption of the ASU will not significantly change the accounting for rental and other revenues from operating leases where we are the lessor, and that such leases will be accounted for in a manner similar to existing standards with the underlying leased asset being reported and recognized as a real estate asset. Upon the adoption of the ASU, we will no longer capitalize and amortize certain leasing related costs and instead will expense these costs as incurred.

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.

NOTE 3 – CONCENTRATION OF CREDIT RISK

Our tenant base and the restaurant brands operating our properties are highly concentrated. With respect to our tenant base, Darden leases represent approximately 77% of the scheduled base rents of the properties we own. As our revenues predominately consist of rental payments, we are dependent on Darden for a significant portion of our leasing revenues. The audited and unaudited financial statements for Darden are included in its filings with the SEC, which can be found on the SEC's internet website at www.sec.gov. Reference to Darden's filings with the SEC is solely for the information of investors. We do not intend this website to be an active link or to otherwise incorporate the information contained on such website (including Darden's filings with the SEC) into this report or our other filings with the SEC.

We are also subject to concentration risk in terms of restaurant brands that occupy our properties. With 299 locations in our portfolio, Olive Garden branded restaurants comprise approximately 49% of our leased properties and approximately 58% of the revenues received under leases. Our properties, including the Kerrow Operating Business, are located in 45 states with lease revenue concentrations of 10% or greater in two states: Texas (12%) and Florida (11%).

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 December 31, 2018, our exposure to risk related to amounts due to us on our derivative instruments totaling \$6 million, and the counterparty to such instruments is an investment grade financial institution. Our credit risk exposure with regard to our cash deposits and the \$250 million available capacity under the revolver portion of our credit facility is spread among a diversified group of investment grade financial institutions.

NOTE 4 – REAL ESTATE INVESTMENTS, NET AND INTANGIBLE ASSETS AND LIABILITIES, NET
Real Estate Investments

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

(In thousands)	December 31,	
	2018	2017
Land	\$569,057	\$449,331
Buildings and improvements	1,099,591	977,783
Equipment	136,633	137,841
Total gross real estate investments	1,805,281	1,564,955
Less: accumulated depreciation	(614,584)	(598,846)
Real estate investments, net	\$1,190,697	\$966,109
Intangible real estate assets, net	18,998	3,835
Total Real Estate Investments and Intangible Real Estate Assets, Net	\$1,209,695	\$969,944

During the year ended December 31, 2018, the Company invested \$268.3 million, including transaction costs, in 97 restaurant properties located in twenty-eight states, and allocated the investment as follows: \$122.6 million to land, \$130.1 million to buildings and improvements, and \$15.6 million to intangible assets principally related to the value of the in-place leases acquired. There was no contingent consideration associated with these acquisitions. These properties are 100% occupied under net leases, with a weighted average remaining lease term of 13.7 years as of December 31, 2018. During the year ended December 31, 2018, the Company sold two properties with a net book value of \$5.8 million for a realized gain on sale of \$15.3 million.

During the year ended December 31, 2017, the Company invested \$100.7 million, including debt assumed, the issuance OP units consideration and transaction costs, in 43 restaurant properties located in fifteen states, and allocated the investment as follows: \$30.1 million to land, \$68.0 million to buildings and improvements, and \$2.6 million to intangible assets principally related to the value of the in-place leases acquired. There was no contingent consideration associated with these acquisitions. These properties were 100% occupied under net leases, with a weighted average remaining lease term of 18.1 years as of December 31, 2017. During the year ended December 31, 2017, the Company sold three properties with a net book value of \$5.1 million for a realized gain on sale of \$10.5 million.

Operating Leases as Lessor

The following table presents the scheduled minimum future contractual rent to be received under the remaining non-cancelable term of the operating leases. The table does not include the extension periods as they are not bargain options.

(In thousands)	December 31, 2018
2019	\$126,001
2020	127,521
2021	128,893
2022	130,519
2023	131,997
Thereafter	1,052,378
Total Future Minimum Rentals	\$1,697,309

Intangible Lease Assets and Liabilities, Net

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

(In thousands)	December 31,	
	2018	2017
Acquired in-place lease intangibles	\$19,079	\$4,169
Above-market leases	1,318	—
Total	20,397	4,169
Less: accumulated amortization	(1,399)	(334)
Intangible Lease Assets, Net	\$18,998	\$3,835

(In thousands)	December 31,	
	2018	2017
Below-market leases	\$610	\$ —
Less: accumulated amortization	(33)	—
Intangible Lease Liabilities, Net	\$577	\$ —

The value of acquired in-place leases amortized and included in depreciation and amortization expense was \$970 thousand, and \$298 thousand, for the years ended December 31, 2018, and 2017, respectively. The value of above-market and below-market leases amortized as a net adjustment to revenue was \$62 thousand for the year ended December 31, 2018. There was no amortization for adjustments to revenue for the years ended December 31, 2017 and 2016. At December 31, 2018, the total weighted average amortization period remaining for our intangible lease assets and liabilities was 12.7 years, and the individual weighted average amortization period remaining for acquired in-place lease intangibles, above-market leases, below-market leases, and lease incentives was 12.6 years, 12.5 years, 9.4 years, and 18.6 years, respectively.

Based on the balance of intangible assets at December 31, 2018, the net aggregate amortization expense for the next five years and thereafter is expected to be as follows:

(In thousands)	December 31, 2018
2019	\$2,280
2020	2,086
2021	1,865
2022	1,734
2023	1,444
Thereafter	9,012
Total Future Amortization Expense	\$18,421

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

Other Assets

The components of Other assets were as follows:

	December 31,	
(In thousands)	2018	2017
Prepaid acquisition costs	\$ 1,802	\$ 1,385
Escrow deposits	1,201	4,905
Prepaid assets	815	616
Inventories	183	186
Accounts receivable	782	383
Other	456	647
Total Other Assets	\$5,239	\$8,122

Other Liabilities

The components of Other liabilities were as follows:

	December 31,	
(In thousands)	2018	2017
Accrued compensation	\$ 1,714	\$ 1,543
Accrued interest expense	1,586	1,290
Accrued operating expenses	486	488
Accounts payable	986	1,055
Deferred rent	712	663
Below-market rent liabilities, net	577	—
Other	992	675
Total Other Liabilities	\$7,053	\$5,714

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

At December 31, 2018, our long-term debt consisted of \$400 million in non-amortizing term loans, no outstanding borrowings under the revolving credit facility, and \$225 million of senior unsecured fixed rate notes. At December 31, 2017, our long-term debt consisted of a \$400 million, non-amortizing term loan, no outstanding borrowings under the revolving credit facility and \$125 million of senior unsecured fixed rate notes.

At December 31, 2018 and 2017, the net unamortized deferred financing costs were approximately \$9.1 million and \$9.5 million, respectively. The weighted average interest rate on the term loan before consideration of the interest rate hedges described below was 3.68% and 2.79% at December 31, 2018 and 2017, respectively.

During the years ended December 31, 2018, 2017 and 2016, amortization of deferred financing costs was \$1.8 million, \$2.1 million, \$1.6 million, respectively. Amortization in the year ended December 31, 2017 includes a one-time charge of \$424 thousand for deferred financing costs expensed as a result of the execution of the Credit Agreement in December 2017.

At both December 31, 2018, and December 31, 2017, there was no balance outstanding under the \$250 million revolving credit facility nor any outstanding letters of credit.

Credit Agreement

On December 13, 2018, the Company and its subsidiary, FCPT OP, entered into Amendment No. 2 to Amended and Restated Revolving Credit and Term Loan Agreement (the “Credit Facility Amendment”) with JPMorgan Chase Bank, N.A., as

administrative agent (the “Agent”), and the lenders (the “Lenders”) and other agents party thereto, which amended the existing Amended and Restated Revolving Credit and Term Loan Agreement, dated as of October 2, 2017, as amended (the “Credit Agreement”), by and among the Company, FCPT OP, the Agent, the Lenders and the other agents party thereto. Prior to the Credit Facility Amendment, \$400 million aggregate principal amount outstanding under the Company's term loan facility was scheduled to mature on November 9, 2022. The Credit Facility Amendment extends the maturity date of certain of the Company's term loan facility such that \$150 million, the non-extended portion of the term loan facility, will mature on November 9, 2022, \$150 million will mature on November 9, 2023, and \$100 million will mature on March 9, 2024. The interest rate charged on the non-extended portion of the term loan facility remained unchanged; however, as of the date of the Credit Facility Amendment, the interest rate charged on the extended portions of the term loan facility will be reduced by ten basis points from the interest rate charged prior to the Credit Facility Amendment. The aggregate principal amount of \$400 million outstanding under the term loan facility prior to the Credit Facility Amendment as well as the lenders and allocation by lender remained unchanged. The revolving credit facility portion of the Credit Agreement was not amended and remained unchanged. The following table presents the Term Loan balances as of December 31, 2018, and 2017.

(Dollars in thousands)	Maturity Date	Interest Rate	Outstanding Balance	
			December 31, 2018	2017
Term Loans:				
Term Loan 2022, amended and restated October 2017 & December 2018	Nov 2022	3.74 % (a)	\$ 150,000	\$ 400,000
Term Loan 2023, extended December 2018	Nov 2023	3.64 % (a)	150,000	—
Term Loan 2024, extended December 2018	Mar 2024	3.64 % (a)	100,000	—
Total Term Loans			\$ 400,000	\$ —