Four Corners Property Trust, Inc.
Form 10-Q
November 03, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨Yes x No
Number of shares of common stock outstanding as of November 2, 2017: 61,196,087

FOUR CORNERS PROPERTY TRUST, INC.
FORM 10 - Q
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017
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FOUR CORNERS PROPERTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Real estate investments:		
Land	$441,462	$421,941
Buildings, equipment and improvements	1,100,430	1,055,624
Total real estate investments	1,541,892	1,477,565
Less: Accumulated depreciation	(593,609)	(583,307)
Total real estate investments, net	948,283	894,258
Real estate held for sale	1,712	—
Cash and cash equivalents	82,865	26,643
Deferred rent	18,877	11,594
Derivative assets	2,296	837
Other assets	7,741	3,819
Total Assets	$1,061,774	$937,151
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of deferred financing costs	$518,353	$438,895
Dividends payable	14,820	14,519
Deferred rental revenue	7,964	7,974
Derivative liabilities	219	—
Deferred tax liabilities	164	196
Other liabilities	6,571	5,450
Total liabilities	548,091	467,034
Equity:		
Preferred stock, par value $0.0001 per share; 25,000,000 authorized, zero shares issued and outstanding	—	—
Common stock, par value $0.0001 per share; 500,000,000 shares authorized, 61,196,087 and 59,923,557 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	6	6
Additional paid-in capital	469,571	438,864
Retained earnings	34,811	25,943
Accumulated other comprehensive income	1,545	207
Noncontrolling interest	7,750	5,097
Total equity	513,683	470,117
Total Liabilities and Equity	$1,061,774	$937,151

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Rental revenue	$28,835	$ 26,363	$84,926	$ 78,748
Restaurant revenues	4,676	4,443	14,445	14,003
Total revenues	33,511	30,806	99,371	92,751
Operating expenses:				
General and administrative	2,899	2,608	9,215	8,434
Depreciation and amortization	5,425	5,059	16,254	15,347
Restaurant expenses	4,571	4,308	13,823	13,600
Interest expense	5,463	3,549	14,066	11,588
Total expenses	18,358	15,524	53,358	48,969
Other income	172	10	211	88
Realized gain on sale, net	4,042	—	7,333	—
Income before income taxes	19,367	15,292	53,557	43,870
Income tax (expense) benefit	(33)	(52)	(139)	80,455
Net income	19,334	15,240	53,418	124,325
Net income attributable to noncontrolling interest	(129)	—	(374)	—
Net Income Available to Common Shareholders	$19,205	$ 15,240	$53,044	$ 124,325
Basic net income per share:	$0.31	$ 0.25	$0.88	$ 2.22
Diluted net income per share:	$0.31	$ 0.25	$0.88	$ 2.09
Weighted average number of common shares outstanding:				
Basic	61,112,051	59,832,824	60,457,949	56,026,594
Diluted [1]	61,256,145	59,863,109	60,567,152	59,469,008
Dividends declared per common share	$0.2425	$ 0.2425	$0.7275	$ 0.7275

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$19,334	$15,240	$53,418	$124,325
Other comprehensive income (loss):				
Effective portion of change in fair value of derivative instruments:				
Effective portion of change in fair value of derivative instruments	293	1,469	115	(9,042)
Reclassification adjustment of derivative instruments included in net income	196	935	1,230	2,900
Other comprehensive income (loss):	489	2,404	1,345	(6,142)
Comprehensive income	19,823	17,644	54,763	118,183
Less: comprehensive income attributable to noncontrolling interest				
Net income attributable to noncontrolling interest	129	—	374	—
Other comprehensive income attributable to noncontrolling interest	4	—	7	—
Comprehensive income attributable to noncontrolling interest	133	—	381	—
Comprehensive Income Attributable to Common Shareholders	$19,690	$17,644	$54,382	$118,183

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)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
	Shares	Par Value					
Balance at December 31, 2016	59,923,557	$ 6	$ 438,864	$ 25,943	$ 207	$ 5,097	$ 470,117
Net income	—	—	—	53,044	—	374	53,418
Other comprehensive income	—	—	—	—	1,338	7	1,345
Issuance of OP units, net	—	—	—	—	—	2,620	2,620
ATM proceeds, net of issuance costs	1,216,992	—	28,787	—	—	—	28,787
Dividends and distributions to equity holders	—	—	—	(44,176)	—	(348)	(44,524)
Stock-based compensation, net	55,538	—	1,920	—	—	—	1,920
Balance at September 30, 2017	61,196,087	$ 6	$ 469,571	$ 34,811	$ 1,545	$ 7,750	$ 513,683

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

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

	Nine Months Ended September 30,	
	2017	2016
Cash flows - operating activities		
Net income	$53,418	$124,325
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	16,254	15,347
Gain on disposal of land, building, and equipment	(7,333)	—
Amortization of financing costs	1,265	1,194
Stock-based compensation expense	1,920	1,158
Deferred income taxes	(32)	(80,685)
Changes in assets and liabilities:		
Derivative assets and liabilities	105	140
Deferred rental asset	(7,323)	(7,799)
Deferred rental revenue	(10)	(55)
Other assets and liabilities	1,915	(1,992)
Net cash provided by operating activities	60,179	51,633
Cash flows - investing activities		
Purchases of real estate investments	(70,366)	(23,742)
Net proceeds from sale of real estate investments	10,734	—
Restricted escrow deposits for pending Section 1031 tax-deferred exchanges	(3,030)	—
Advance deposits on acquisition of operating real estate	(757)	—
Cash used in investing activities	(63,419)	(23,742)
Cash flows - financing activities		
Net proceeds from equity issuance	28,787	—
Proceeds from issuance of senior notes	125,000	—
Payment of deferred financing costs	(1,809)	—
Proceeds from revolving credit facility	36,000	—
Repayment of revolving credit facility	(81,000)	—
Payment of dividend to shareholders	(43,875)	(107,094)
Distribution to non-controlling interests	(348)	—
Redemption of non-controlling interests	(988)	—
Repayment of debt assumed in purchase of real estate investments	(2,305)	—
Net cash provided by (used in) financing activities	59,462	(107,094)
Net increase (decrease) in cash and cash equivalents	56,222	(79,203)
Cash and cash equivalents, beginning of period	26,643	98,073
Cash and cash equivalents, end of period	$82,865	$18,870
Supplemental disclosures:		
Dividends declared but not paid	$14,820	$14,510
Interest paid	$10,945	$6,554
Taxes paid	$522	$2,369
Non-cash investing and financing activities:		
Debt assumed in acquisition of real estate investments	$2,305	$—
Change in fair value of derivative instruments	$1,240	$—
Operating partnership units issued in exchange for real estate investments	$3,609	$—

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

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

FCPT was incorporated as a Maryland corporation on July 2, 2015 as a wholly owned indirect subsidiary of Darden Restaurants, Inc., (together with its consolidated subsidiaries, “Darden”), for the purpose of owning, acquiring and leasing properties on a triple-net basis, for use in the restaurant and related food service industries. On November 9, 2015, Darden completed a spin-off of FCPT whereby Darden contributed to us 100% of the equity interest in entities that 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 as well as cash in lieu of any fractional shares of our common stock which they would have otherwise received (the “Spin-Off”). The Spin-Off is intended to qualify as tax-free to Darden shareholders for U.S. federal income tax purposes, except for cash paid in lieu of fractional shares.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

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

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

Reclassifications

Certain amounts previously reported under specific financial statement captions have been reclassified to be consistent with the current period presentation. The Company reclassified 2016 interest income earned on its cash and marketable securities from rental income to other income. The reclassification totaled $10 thousand and $88 thousand for the three and nine months ended September 30, 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Use of Estimates

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

Real Estate Investments, Net

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

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

Acquisition of Real Estate

The Company evaluated the acquisitions and concluded that the land, building, site improvements, and in-places leases (if any) were a single asset. The building and property improvements are attached to the land and cannot be physically removed and used separately from the land without incurring significant costs or reducing their fair value. As substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset, the acquisitions do not qualify as a business and are accounted for as asset acquisitions. Related transaction costs are generally capitalized into the basis of the acquired assets and depreciated over the useful life of those acquired assets. Goodwill is not recognized in the acquisition of assets.

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

Lease Intangibles

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Impairment of Long-Lived Assets

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

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

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.

During the nine months ended September 30, 2017, the Company sold two properties leased to Darden for total consideration of $11.1 million, exclusive of $0.4 million of selling costs. The sales were the result of unsolicited offers and resulted in a net gain of $7.3 million after costs to sell. Additionally, the Company expects to finalize the sale of one property leased to Darden for approximately $5.1 million in the fourth quarter of 2017. This prospective sale is from an unsolicited offer and would result in a gain of approximately $3.3 million.

Cash and Cash Equivalents

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

Derivative Instruments and Hedging Activities

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

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at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

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

See Note 7 - Derivative Financial Instruments for additional information.

Other Assets and Liabilities

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

Notes Payable

Notes payable are carried at their unpaid principal balance, net of deferred financing costs. This long-term debt is unsecured and interest is paid monthly on our non-amortizing term loan and revolving credit facility and semi-annually on our senior fixed rate notes until the principal is paid in whole or matures at a future date.

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

Deferred Financing Costs

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

Revenue Recognition

Rental Revenue

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

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

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

We assess the collectability of our lease receivables, including 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,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

the historical operations and operating trends of the property, the historical payment pattern of the tenant and the type of property. If our evaluation of these factors indicates it is probable that we will be unable to receive the rent payments due in the future, we provide a reserve against the recognized deferred rent receivable asset for the portion, up to its full value, that we estimate may not be recovered. If we change our assumptions or estimates regarding the collectability of future rent payments required by a lease, we may adjust our reserve or reduce the rental revenue recognized in the period we make such change in our assumptions or estimates.

Restaurant Revenue

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

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

Restaurant Expenses

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

Income Taxes

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

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

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

We estimate certain components of our provision for income taxes. These estimates include, among other items, depreciation and amortization expense allowable for tax purposes, allowable tax credits for items such as taxes paid on reported employee tip

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

See Note 8 - Income Taxes for additional information.

Earnings Per Share

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

See Note 9 - Stockholders’ Equity for additional information.

Stock-Based Compensation

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

Effective January 1, 2017, the Company adopted ASU No. 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which amends how companies account for certain aspects of share-based payments to employees. The new guidance required all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allowed an employer to repurchase more of an employee’s shares than it 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Application of New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers”. The standard outlines a single comprehensive revenue recognition model for entities to follow in accounting for revenue from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive for those goods or services. On July 9, 2015, the FASB decided to delay the effective date of ASU 2014-09 for one year. The standard is now effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption for annual periods beginning after December 15, 2016 and interim periods within those annual periods is permitted. We will adopt this standard retrospectively with the cumulative effect recognized at the date of initial application. We do not expect adoption of this guidance to have a material impact on our consolidated financial statements or related disclosures.

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

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments.” ASU 2016-15 provides guidance on certain specific cash flow issues, including, but not limited to, debt prepayment or extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investees. ASU 2016-15 is effective for periods beginning after December 15, 2017, with early adoption permitted and shall be applied retrospectively where practicable. We do not expect adoption of this guidance to have a material impact on our consolidated financial statements or related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows - Restricted Cash.” 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. As a result, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, and the new guidance is to be applied retrospectively.The Company has assessed ASU 2016-18 and does not expect a material impact on its accounting and disclosures as it currently does not have what would be considered “Restricted cash” at this time.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting.” The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require the application of modification accounting in Topic 718. ASU 2017-09 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted, and should be applied prospectively to an award modified on or after the adoption date. We do not expect adoption of this guidance to have a material impact on our consolidated financial statements or related disclosures.

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. The ASU also simplifies the application of the hedge accounting guidance. ASU 2017-12 is effective on January 1, 2019, with early adoption permitted. The amendments to presentation guidance and disclosure requirements are required to be adopted prospectively. We are currently evaluating the impact of adopting this guidance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 89% of the scheduled base rents from the properties we own. As our revenues predominately consist of rental payments, we are dependent on Darden for a significant portion of our leasing revenues. The audited financial statements for Darden can be found in the Investor Relations section at www.darden.com. We are providing this website address solely for the information of our stockholders. We do not intend this website to be an active link or to otherwise incorporate the information contained on such website into this report or our other filings with the SEC.

We also are subject to concentration risk in terms of the restaurant brands that operate our properties. With 297 locations in our portfolio, Olive Garden branded restaurants comprise approximately 58% of our leased properties and approximately 67% of the revenues received under leases. Our properties, including our Kerrow restaurants, are located in 44 states, with concentrations of 10% or greater of total rental revenue in two states: Florida (11%) and Texas (11%). Neither Darden nor any of our other tenants experienced any long-term disruption in restaurant activities at any of our properties as a result of the recent hurricanes in Florida and Texas.

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and cash equivalents. We are exposed to credit risk with respect to cash held at various financial institutions, access to our credit facility, and amounts due or payable under our derivative contracts. At September 30, 2017, our exposure to risk related to our derivative instruments totaled $1.9 million and the counterparty to such instruments is an investment grade financial institution. Our credit risk exposure with regard to our cash and the $350.0 million available capacity under the revolver portion of our credit facility is spread among a diversified group of investment grade financial institutions.

NOTE 4 – REAL ESTATE INVESMENTS, NET

Real Estate Investments, Net

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

(In thousands)	September 30, 2017	December 31, 2016
Land	$441,462	$421,941
Buildings and improvements	962,619	916,444
Equipment	137,811	139,180
Total gross real estate investments	1,541,892	1,477,565
Less: accumulated depreciation	(593,609)	(583,307)
Total Real Estate Investments, Net	$948,283	$894,258

During the nine months ended September 30, 2017, the Company invested $76.1 million, including transaction costs, in 35 restaurant properties located in 14 states, and allocated the investment as follows: $22.2 million to land, $52.9 million to buildings and improvements, and $1.0 million to intangible assets related to leases. There was no contingent consideration associated with these acquisitions. These properties are 100% occupied under triple-net leases, with a weighted average remaining lease term of 17.8 years. The Company accounted for these transactions as asset acquisitions in accordance with U.S. GAAP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Operating Leases

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

(In thousands)	September 30, 2017
2017 (three months)	$26,574
2018	107,067
2019	108,626
2020	110,164
2021	111,622
2022	113,392
Thereafter	969,628
Total Future Minimum Lease Payments	$1,547,073

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

Other Assets

The components of other assets were as follows:

(In thousands)	September 30, 2017	December 31, 2016
Intangible lease assets	$ 2,494	$ 1,772
Escrow deposits	3,030	—
Prepaid acquisition costs	919	438
Prepaid assets	233	614
Accounts receivable	217	162
Inventories	159	202
Other	689	631
Total Other Assets	$ 7,741	$ 3,819

Lease Intangibles, Net

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

(In thousands)	September 30, 2017	December 31, 2016
In-place leases	$ 2,768	$ 1,809
Less: Accumulated amortization	(274)	(37)
Intangible Lease Assets, Net	$ 2,494	$ 1,772

The value of in-place leases amortized and included in depreciation and amortization expense for the three and nine months ended September 30, 2017 was $77 thousand and $237 thousand, respectively. There was no amortization expense for intangible lease assets for the three or nine months ended September 30, 2016. There were no above or below market intangible assets or liabilities at September 30, 2017 or December 31, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(In thousands)	September 30, 2017
2017 (three months)	$ 61
2018	230
2019	230
2020	225
2021	203
2022	196
Thereafter	1,349
Total Future Amortization Expense	$ 2,494

Other Liabilities

The components of other liabilities were as follows:

(In thousands)	September 30, 2017	December 31, 2016
Accrued interest expense	$ 2,885	$ 1,134
Accrued compensation	1,123	1,296
Accounts payable	969	726
Deferred lease liability	662	634
Accrued operating expenses	185	759
Other	747	901
Total Other Liabilities	$ 6,571	$ 5,450

NOTE 6 – NOTES PAYABLE, NET OF DEFERRED FINANCING COSTS

On February 14, 2017, FCPT OP, Four Corners Property Trust, and certain of its subsidiaries, as guarantors, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto entered into a second amendment (the “Loan Agreement Amendment”) to the Revolving Credit and Term Loan Agreement (as amended, the “Loan Agreement”), for the purpose of, among other things, permitting an incurrence of additional unsecured debt in an aggregate principal amount of at least $50 million. The Loan Agreement Amendment further provides that, upon the incurrence of such additional unsecured debt, (A) all pledges of equity interests that secure the Loan Agreement, and all subsidiary guarantees of the Loan Agreement, will be released and (B) the financial covenant requirements in relation to maximum leverage and minimum debt service coverage will be adjusted in the manner set forth in the Loan Agreement Amendment. In addition, the Loan Agreement Amendment increases the minimum Consolidated Tangible Net Worth requirement from $845.7 million to $868.9 million. The Loan Agreement Amendment also contains customary representations and warranties by FCPT OP. On October 2, 2017, FCPT OP, FCPT and certain of its subsidiaries, as guarantors, further amended and restated the Loan Agreement. See Note 14 – Subsequent Events.

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

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

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

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

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

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

At September 30, 2017 and December 31, 2016, the net unamortized deferred financing costs were approximately $6.6 million and $6.1 million, respectively. The weighted average interest rate on the term loan before consideration of the interest rate hedge described below was 2.94% and 2.36% at September 30, 2017 and December 31, 2016, respectively. During the three months ended September 30, 2017 and 2016, amortization of deferred financing costs was $451 thousand and $398 thousand, respectively. During the nine months ended September 30, 2017 and September 30, 2016, amortization of deferred financing costs was $1.3 million and $1.2 million, respectively. At September 30, 2017 there was no balance outstanding under the revolving credit facility. At December 31, 2016, there was $45.0 million outstanding under the revolving credit facility with a weighted average interest rate of 2.46%. There were no outstanding letters of credit at September 30, 2017 or December 31, 2016.

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

NOTE 7 – DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded on our consolidated balance sheet in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the nine months ended September 30, 2017, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

During the three months ended September 30, 2017, FCPT OP entered into three interest rate swaps pursuant to an International Swaps and Derivatives Association Master Agreement with J.P. Morgan Chase Bank, N.A. The first swap, entered into on July 12, 2017, has a fixed notional value of $100.0 million with an effective date of November 9, 2018, and a maturity date of November 9, 2021, and where the fixed rate paid by FCPT OP is 1.960% and the variable rate received resets monthly to the one month LIBOR rate. The second swap, also entered into on July 12, 2017, has a fixed notional value of $100.0 million with an effective date of November 9, 2020, and a maturity date of November 9, 2023, and where the fixed rate paid by FCPT OP is 2.302% and the variable rate received resets monthly to the one month LIBOR rate. The third swap, which was entered into on August 29, 2017, is a two-year swap with a fixed notional value of $100.0 million for its first twelve months and $200.0 million for its second twelve months with an effective date of November 9, 2020 and 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 hedging agreements were entered into to mitigate the interest rate risk inherent in FCPT OP’s variable rate debt and are not for trading purposes.

As of September 30, 2017, our variable-rate debt of $400.0 million is hedged by swaps with notional values totaling $400.0 million through November 9, 2018. From November 9, 2018 through the loan maturity date of the variable-rate debt, November 9, 2022, there are swaps in place with notional amounts totaling $300.0 million.

For the three months ended September 30, 2017 and 2016, we recorded approximately $9 thousand and $346 thousand of income, respectively, related to hedge ineffectiveness in earnings. For the nine months ended September 30, 2017 and 2016, we recorded approximately $46 thousand of income and $8 thousand of expense, respectively, related to hedge ineffectiveness in earnings. The hedge ineffectiveness is attributable to zero-percent floor and rounding mismatches in the hedging relationships.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. We estimate that over the next twelve months an additional $197 thousand will be reclassified to earnings as a decrease to interest expense.

Non-designated Hedges

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Tabular Disclosure of Fair Values of Derivative Instruments on the Consolidated Balance Sheets
The table below presents the fair value of our derivative financial instruments as well as their classification on the consolidated balance sheet as of September 30, 2017 and December 31, 2016.

	Derivative Assets			Derivative Liabilities	
		Fair Value at			Fair Value at
	Balance Sheet Location			Balance Sheet Location	
(Dollars in thousands)		September 30, 2017	December 31, 2016		