Four Corners Property Trust, Inc.
Form 10-Q
October 30, 2018
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, 2018
or

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨Yes x No
Number of shares of common stock outstanding as of October 29, 2018: 67,755,399

FOUR CORNERS PROPERTY TRUST, INC.
FORM 10 - Q
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FOUR CORNERS PROPERTY TRUST, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Real estate investments:		
Land	$549,070	$449,331
Buildings, equipment and improvements	1,214,792	1,115,624
Total real estate investments	1,763,862	1,564,955
Less: Accumulated depreciation	(610,835)	(598,846)
Total real estate investments, net	1,153,027	966,109
Intangible lease assets, net	12,549	3,835
Total real estate investments and intangible lease assets, net	1,165,576	969,944
Cash and cash equivalents	26,890	64,466
Straight-line rent adjustment	27,799	21,130
Derivative assets	12,634	4,997
Other assets	3,279	8,122
Total Assets	$1,236,178	$1,068,659
LIABILITIES AND EQUITY		
Liabilities:		
Long-term debt, net of deferred financing costs	$516,904	$515,539
Dividends payable	18,519	16,843
Rent received in advance	8,300	8,295
Derivative liabilities	—	8
Other liabilities	7,377	5,706
Total liabilities	551,100	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, 67,441,692 and 61,329,489 shares issued and outstanding, respectively	7	6
Additional paid-in capital	620,216	473,685
Retained earnings	44,393	36,318
Accumulated other comprehensive income	12,566	4,478
Noncontrolling interest	7,896	7,781
Total equity	685,078	522,268
Total Liabilities and Equity	$1,236,178	$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)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental revenue	$31,324	$ 28,835	$90,509	$ 84,926
Restaurant revenue	4,798	4,676	15,091	14,445
Total revenues	36,122	33,511	105,600	99,371
Expenses:				
General and administrative	3,225	2,899	10,098	9,215
Depreciation and amortization	5,743	5,425	16,312	16,254
Restaurant expenses	4,713	4,571	14,370	13,823
Interest expense	4,934	5,463	14,667	14,066
Total expenses	18,615	18,358	55,447	53,358
Other income	164	172	752	211
Realized gain on sale, net	—	4,042	10,879	7,333
Income before income taxes	17,671	19,367	61,784	53,557
Income tax expense	(64)	(33)	(189)	(139)
Net income	17,607	19,334	61,595	53,418
Net income attributable to noncontrolling interest	(111)	(129)	(402)	(374)
Net Income Available to Common Shareholders	$17,496	$ 19,205	$61,193	$ 53,044
Basic net income per share:	$0.27	$ 0.31	$0.97	$ 0.88
Diluted net income per share:	$0.27	$ 0.31	$0.97	$ 0.88
Weighted average number of common shares outstanding:				
Basic	65,347,842	61,112,051	62,804,123	60,457,949
Diluted	65,577,975	61,256,145	62,987,282	60,567,152
Dividends declared per common share	$0.2750	$ 0.2425	$0.8250	$ 0.7275

The accompanying notes are an integral part of this financial statement.
2

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,	
	2018	2017	2018	2017
Net income	$17,607	$19,334	$61,595	$53,418
Other comprehensive income:				
Effective portion of change in fair value of derivative instruments	1,132	293	9,234	115
Reclassification adjustment of derivative instruments included in net income	(748)	196	(1,562)	1,230
Other comprehensive income (loss)	384	489	7,672	1,345
Comprehensive income	17,991	19,823	69,267	54,763
Less: comprehensive income attributable to noncontrolling interest				
Net income attributable to noncontrolling interest	111	129	402	374
Other comprehensive income attributable to noncontrolling interest	2	4	51	7
Comprehensive income attributable to noncontrolling interest	113	133	453	381
Comprehensive Income Attributable to Common Shareholders	$17,878	$19,690	$68,814	$54,382

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
	Shares	Par Value					
Balance at December 31, 2017	61,329,489	$ 6	$473,685	$36,318	$ 4,478	$ 7,781	$522,268
ASU 2017-12 cumulative effect adjustment	—	—	—	(467)	467	—	—
Net income	—	—	—	61,193	—	402	61,595
Other comprehensive income	—	—	—	—	7,621	51	7,672
ATM proceeds, net of issuance costs	2,022,106		47,305	—	—	—	47,305
Equity offering, net of issuance costs	4,025,000	1	96,355	—	—	—	96,356
Dividends and distributions to equity holders	—	—	—	(52,651)	—	(338)	(52,989)
Stock-based compensation, net	65,097	—	2,871	—	—	—	2,871
Balance at September 30, 2018	67,441,692	$ 7	$620,216	$44,393	$ 12,566	$ 7,896	$685,078

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

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows - operating activities		
Net income	$61,595	$53,418
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	16,312	16,254
Gain on disposal of land, building, and equipment	(10,879)	(7,333)
Gain on exchange of non-financial assets	(228)	—
Amortization of financing costs	1,368	1,265
Stock-based compensation expense	2,871	1,920
Deferred income taxes	—	(32)
Changes in assets and liabilities:		
Derivative assets and liabilities	27	105
Straight-line rent adjustment	(6,857)	(7,283)
Rent received in advance	5	(10)
Other assets and liabilities	1,601	1,875
Net cash provided by operating activities	65,815	60,179
Cash flows - investing activities		
Purchases of real estate investments	(216,272)	(70,366)
Proceeds from sale of real estate investments	15,714	10,734
Advance deposits on acquisition of operating real estate	(86)	(757)
Cash used in investing activities	(200,644)	(60,389)
Cash flows - financing activities		
Net proceeds from ATM equity issuance	47,305	28,787
Net proceeds from equity offering	96,356	—
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 dividends to shareholders	(50,975)	(43,875)
Distributions to non-controlling interests	(338)	(348)
Redemption of non-controlling interests	—	(988)
Repayment of debt assumed in purchase of real estate investments	—	(2,305)
Net cash provided by financing activities	92,348	59,462
Net (decrease) increase in cash and cash equivalents, including restricted cash	(42,481)	59,252
Cash and cash equivalents, including restricted cash, at beginning of period	69,371	26,643
Cash and cash equivalents, including restricted cash, at end of period	$26,890	$85,895
Supplemental disclosures:		
Interest paid	$13,199	$10,945
Income taxes paid	615	522
Non-cash investing and financing activities:		
Dividends declared but not paid	$18,519	$14,820
Debt assumed in acquisition of real estate investments	—	2,305
Change in fair value of derivative instruments	7,637	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
(Unaudited)

NOTE 1 – ORGANIZATION

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

FCPT was incorporated as a Maryland corporation on July 2, 2015 as a wholly owned indirect subsidiary of Darden Restaurants, Inc., (together with its consolidated subsidiaries, "Darden"), for the purpose of owning, acquiring and leasing properties on a triple-net basis, for use in the restaurant and related food service industries. On November 9, 2015, Darden completed a spin-off of FCPT whereby Darden contributed to us 100% of the equity interest in entities that owned 418 properties in which Darden operates restaurants, representing five of their brands, and six LongHorn Steakhouse® restaurants located in the San Antonio, Texas area (the "Kerrow Restaurant Operating Business") along with the underlying properties or interests therein associated with the Kerrow Restaurant Operating Business. In exchange, we issued to Darden all of our common stock and paid to Darden $315.0 million in cash. Subsequently, Darden distributed all of our outstanding shares of common stock pro rata to holders of Darden common stock whereby each Darden shareholder received one share of our common stock for every three shares of Darden common stock held at the close of business on the record date 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 U.S. 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 U.S. 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 intangible lease assets, net of $3.8 million at December 31, 2017, from Other assets to Intangible lease assets, net on the Consolidated Balance Sheet.

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,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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 Income and 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 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-places leases (if any) of assets acquired were a single asset as the building and property improvements are attached to the land and cannot be physically removed and used separately from the land without incurring significant costs or reducing their fair value. Additionally, the Company has not acquired a substantive process used to generate outputs. As substantially all of the fair value of the gross assets acquired are concentrated in a single identifiable asset and there were no processes acquired, the acquisitions do not qualify as a business and are accounted for as asset acquisitions. Related transaction costs are generally capitalized and amortized over the useful life of the acquired assets.

The Company allocates the purchase price (including acquisition and closing costs) of real estate acquisitions to land, building, and improvements based on their relative fair values, 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 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. The aggregate value of other acquired intangible assets, consisting of in-place leases, is measured by the excess of the purchase price paid for a property after adjusting existing in-place leases to current market lease rates over the estimated fair value of the property as-if-vacant.

7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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 in depreciation and amortization expense.

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.

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 Consolidated Statements of Income and Comprehensive Income as the original impairment, if any.

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. Assets whose disposal is not probable within one year remain in land, buildings, equipment and improvements until their disposal within one year is probable. Disposals of assets that have a major effect on our operations and financial results or that represent a strategic shift in our operating businesses meet the requirements to be reported as discontinued operations. Real estate held for sale is reported at the lower of carrying amount or fair value, less estimated costs to sell. There was no real estate held for sale at September 30, 2018 or December 31, 2017.

Cash, Cash Equivalents, and Restricted Cash

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents can consist of cash and money market accounts. Restricted cash includes escrow deposits and is included in Other Assets on our Consolidated Balance Sheets.

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

(In thousands)	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 26,890	$ 64,466
Restricted cash (included in Other assets)	—	4,905
Total Cash, Cash Equivalents, and Restricted Cash	$ 26,890	$ 69,371

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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 loan and revolving credit facility and semi-annually on our senior fixed rate notes.
See Note 6 - Long-term Debt, Net of Deferred Financing Costs for additional information.
Deferred Financing Costs
Financing costs related to long-term debt are deferred and amortized over the remaining life of the debt using the effective interest method. These costs are presented as a direct deduction from their related liabilities on the 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 sheet or to specific forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.
To the extent our derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the cash flow hedge accounting criteria in accordance with United States generally accepted accounting principles ("U.S. GAAP"), changes in the derivatives' fair value are not included in current earnings but are included in accumulated other comprehensive income (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.
Other Assets and Liabilities
Other assets primarily consist of pre-acquisition costs, prepaid assets, food and beverage inventories, restricted cash (escrow deposits), lease origination fees, and accounts receivable. Other liabilities primarily consist of accrued compensation, accrued interest, accrued operating expenses, intangible lease liabilities, and deferred rent obligations on certain operating leases.
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. 2017-15, "Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." Through the evaluation and implementation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

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 Statements of Income and Comprehensive Income. We previously recognized revenue from asset sales 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 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 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.

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, is recognized when food and beverage products are sold. At September 30, 2018, and December 31, 2017, credit card receivables totaled $68 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