READING INTERNATIONAL INC
Form 10-Q
August 09, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2018

OR

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

Commission file number 1-8625

READING INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

NEVADA	95-3885184
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
5995 Sepulveda Boulevard, Suite 300	
Culver City, CA	90230
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (213) 235-2240

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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 definitions of "large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer 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 No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 7, 2018 there were 21,309,702 shares of Class A Nonvoting Common Stock, $0.01 par value per share and 1,680,590 shares of Class B Voting Common Stock, $0.01 par value per share outstanding.

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READING INTERNATIONAL, INC. AND SUBSIDIARIES

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PART 1 – FINANCIAL INFORMATION

Item 1 - Financial Statements

READING INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited; U.S. dollars in thousands, except share information)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,742	$ 13,668
Receivables	8,371	13,050
Inventory	1,418	1,432
Prepaid and other current assets	7,916	5,325
Total current assets	30,447	33,475
Operating property, net	265,586	264,724
Investment and development property, net	74,042	61,254
Investment in unconsolidated joint ventures	5,112	5,304
Goodwill	19,686	20,276
Intangible assets, net	7,805	8,542
Deferred tax asset, net	25,776	24,908
Other assets	7,258	4,543
Total assets	$ 435,712	$ 423,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 24,051	$ 34,359
Film rent payable	10,774	13,511
Debt – current portion	10,747	8,109
Taxes payable – current	4,383	2,938
Deferred current revenue	7,341	9,850
Other current liabilities	9,342	11,679
Total current liabilities	66,638	80,446
Debt – long-term portion	119,946	94,862
Subordinated debt, net	27,574	27,554
Noncurrent tax liabilities	12,040	12,274
Other liabilities	28,346	26,649
Total liabilities	254,544	241,785
Commitments and contingencies (Note 13)		
Stockholders’ equity:		

Class A non-voting common stock, par value $0.01, 100,000,000 shares authorized, 33,101,614 issued and 21,309,702 outstanding at June 30, 2018, and		
33,019,565 issued and 21,251,291 outstanding at December 31, 2017	232	231
Class B voting common stock, par value $0.01, 20,000,000 shares authorized and 1,680,590 issued and outstanding at June 30, 2018 and December 31, 2017	17	17
Nonvoting preferred stock, par value $0.01, 12,000 shares authorized and no issued or outstanding shares at June 30, 2018 and December 31, 2017	--	--
Additional paid-in capital	146,567	145,898
Retained earnings	40,918	32,679
Treasury shares	(23,303)	(22,906)
Accumulated other comprehensive income	12,332	20,991
Total Reading International, Inc. stockholders' equity	176,763	176,910
Noncontrolling interests	4,405	4,331
Total stockholders' equity	181,168	181,241
Total liabilities and stockholders' equity	$ 435,712	$ 423,026

See accompanying Notes to the Unaudited Consolidated Financial Statements.

READING INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; U.S. dollars in thousands, except per share data)

	Quarter Ended		Six Months Ended	
	June 30, 2018	June 30, 2017 (1)	June 30, 2018	June 30, 2017(1)
Revenue				
Cinema	$ 80,183	$ 67,443	$ 152,438	$ 134,003
Real estate	4,039	4,970	7,605	7,864
Total revenue	84,222	72,413	160,043	141,867
Costs and expenses				
Cinema	(60,306)	(52,139)	(115,254)	(103,921)
Real estate	(2,551)	(2,342)	(4,935)	(4,377)
Depreciation and amortization	(5,626)	(4,054)	(10,877)	(7,987)
General and administrative	(7,165)	(6,118)	(14,761)	(12,291)
Total costs and expenses	(75,648)	(64,653)	(145,827)	(128,576)
Operating income	8,574	7,760	14,216	13,291
Interest expense, net	(1,790)	(1,787)	(3,384)	(3,647)
Gain on sale of assets	--	9,417	--	9,417
Gain on insurance recoveries	--	9,217	--	9,217
Other (expense) income	(61)	27	(143)	848
Income before income tax expense and equity earnings of unconsolidated joint ventures	6,723	24,634	10,689	29,126
Equity earnings of unconsolidated joint ventures	331	264	588	518
Income before income taxes	7,054	24,898	11,277	29,644
Income tax expense	(1,953)	(5,846)	(3,108)	(7,549)
Net income	$ 5,101	$ 19,052	$ 8,169	$ 22,095
Less: net income attributable to noncontrolling interests	102	20	124	32
Net income attributable to Reading International, Inc. common shareholders	$ 4,999	$ 19,032	$ 8,045	$ 22,063
Basic earnings per share attributable to Reading International, Inc. shareholders	$ 0.22	$ 0.82	$ 0.35	$ 0.95
Diluted earnings per share attributable to Reading International, Inc. shareholders	$ 0.22	$ 0.81	$ 0.35	$ 0.94
Weighted average number of shares outstanding–basic	22,933,589	23,148,995	22,979,436	23,168,703
Weighted average number of shares outstanding–diluted	23,147,373	23,396,143	23,193,220	23,415,851

See accompanying Notes to the Unaudited Consolidated Financial Statements.

(1) Certain prior year balances have been reclassified to conform to the 2018 presentation (see Note 2 – Summary of Significant Accounting Policies – Reclassifications).

READING INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; U.S. dollars in thousands)

	Quarter Ended		Six Months Ended	
	June 30, 2018	June 30, 2017(1)	June 30, 2018	June 30, 2017(1)
Net income	$ 5,101	$ 19,052	$ 8,169	$ 22,095
Foreign currency translation (loss) gain	(7,968)	2,575	(8,771)	8,401
Other	52	52	102	100
Comprehensive income	(2,815)	21,679	(500)	30,596
Less: net income attributable to noncontrolling interests	102	20	124	32
Less: comprehensive (loss) income attributable to noncontrolling interests	(7)	--	(10)	13
Comprehensive (loss) income attributable to Reading International, Inc.	$ (2,910)	$ 21,659	$ (614)	$ 30,551

See accompanying Notes to the Unaudited Consolidated Financial Statements.

(1) Certain prior year balances have been reclassified to conform to the 2018 presentation (see Note 2 – Summary of Significant Accounting Policies – Reclassifications).

READING INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; U.S. dollars in thousands)

	Six Months Ended	
	June 30, 2018	June 30, 2017
Operating Activities		
Net income	$ 8,169	$ 22,095
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity earnings of unconsolidated joint ventures	(588)	(518)
Distributions of earnings from unconsolidated joint ventures	504	423
Gain recognized on foreign currency transactions	--	(820)
Gain on sale of assets	--	(9,417)
Gain on insurance recoveries	--	(9,217)
Change in net deferred tax assets	(1,165)	690
Depreciation and amortization	10,877	7,987
Other amortization	355	1,259
Stock based compensation expense	718	460
Net changes in operating assets and liabilities:		
Receivables	3,532	1,970
Prepaid and other assets	(3,841)	1,018
Payments for accrued pension	(2,529)	--
Accounts payable and accrued expenses	84	(5,859)
Film rent payable	(2,576)	(1,859)
Taxes payable	1,641	(915)
Deferred revenue and other liabilities	(1,851)	(1,309)
Net cash provided by operating activities	13,330	5,988
Investing Activities		
Demolition costs of operating property	--	(3,160)
Insurance recoveries relating to property damage and demolition costs	--	18,415
Purchases of and additions to operating and investment properties	(41,180)	(24,824)
Change in restricted cash	(1,795)	12
Distributions of investment in unconsolidated joint ventures	--	124
Disposal of investment in unconsolidated joint ventures	--	(337)
Proceeds from sale of assets	--	16,606
Net cash (used in) / provided by investing activities	(42,975)	6,836
Financing Activities		
Repayment of long-term borrowings	(21,839)	(38,255)
Proceeds from borrowings	51,300	22,869
Repurchase of Class A Nonvoting Common Stock	(397)	(3,400)

Proceeds from the exercise of stock options	196	150
Noncontrolling interest contributions	55	49
Noncontrolling interest distributions	(93)	(133)
Net cash provided by / (used in) financing activities	29,222	(18,720)
Effect of exchange rate changes on cash and cash equivalents	(503)	(46)
Net decrease in cash and cash equivalents	(926)	(5,942)
Cash and cash equivalents at January 1	13,668	19,017
Cash and cash equivalents at June 30	$ 12,742	$ 13,075
Supplemental Disclosures		
Interest paid	$ 3,649	$ 2,870
Income taxes paid	5,061	5,711
Non-Cash Transactions		
Additions to operating and investing properties through accrued expenses	789	--

See accompanying Notes to the Unaudited Consolidated Financial Statements.

READING INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 – Description of Business and Segment Reporting

The Company

Reading International, Inc., a Nevada corporation ("RDI" and collectively with our consolidated subsidiaries and corporate predecessors, the "Company", "Reading" and "we", "us", or "our"), was incorporated in 1999. Our businesses consi primarily of:

- the operation, development and ownership of multiplex cinemas in the United States, Australia, and New Zealand; and,
- the development, ownership, and operation of retail and commercial real estate in Australia, New Zealand, and the United States.

Business Segments

Reported below are the operating segments of the Company for which separate financial information is available and evaluated regularly by the Chief Executive Officer, the chief operating decision-maker of the Company. As part of our real estate activities, we hold undeveloped land in urban and suburban centers in New Zealand and the United States.

The table below summarizes the results of operations for each of our business segments for the quarter and six months ended June 30, 2018 and 2017, respectively. Operating expense includes costs associated with the day-to-day operations of the cinemas and the management of rental properties, including our live theater assets.

	Quarter Ended		Six Months Ended	
(Dollars in thousands)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue:				
Cinema exhibition	$ 80,183	$ 67,443	$ 152,438	$ 134,003
Real estate	6,385	6,933	12,342	11,431
Inter-segment elimination	(2,346)	(1,963)	(4,737)	(3,567)
	$ 84,222	$ 72,413	$ 160,043	$ 141,867
Segment operating income:				

Cinema exhibition	$ 12,494	$ 9,788	$ 22,779	$ 18,879
Real estate	1,914	2,756	3,544	4,051
	$ 14,408	$ 12,544	$ 26,323	$ 22,930

A reconciliation of segment operating income to income before income taxes is as follows:

	Quarter Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
(Dollars in thousands)	2018	2017	2018	2017
Segment operating income	$ 14,408	$ 12,544	$ 26,323	$ 22,930
Unallocated corporate expense				
Depreciation and amortization expense	(104)	(110)	(221)	(214)
General and administrative expense	(5,730)	(4,674)	(11,886)	(9,425)
Interest expense, net	(1,790)	(1,787)	(3,384)	(3,647)
Equity earnings of unconsolidated joint ventures	331	264	588	518
Gain on sale of assets	--	9,417	--	9,417
Gain on insurance recoveries	--	9,217	--	9,217
Other income (expense)	(61)	27	(143)	848
Income before income tax expense	$ 7,054	$ 24,898	$ 11,277	$ 29,644

Note 2 – Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company’s wholly-owned subsidiaries as well as majority-owned subsidiaries that the Company controls, and should be read in conjunction with the Company’s Annual Report on Form 10-K as of and for the year ended December 31, 2017 (“2017 Form 10-K”). All significant intercompany balances and transactions have been eliminated on consolidation. These consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim reporting with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (“SEC”). As such, they do not include all information and footnotes required by U.S. GAAP for complete financial statements. We believe that we have included all normal and recurring adjustments necessary for a fair presentation of the results for the interim period.

Operating results for the quarter and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and footnotes thereto. Significant estimates include (i) projections we make regarding the recoverability and impairment of our assets (including goodwill and intangibles), (ii) valuations of our derivative instruments, (iii) recoverability of our deferred tax assets, (iv) estimation of breakage and redemption experience rates, which drive how we recognize breakage on our gift card and gift certificates, and revenue from our customer loyalty program, and (v) allocation of insurance proceeds to various recoverable components. Actual results may differ from those estimates.

Reclassifications

Certain reclassifications have been made in the June 30, 2017 comparative information in our consolidated financial statements and accompanying notes to conform to the 2018 presentation. These reclassifications relate to the following immaterial balances:

(i) net-off of interest income against interest expense in our consolidated statements of income; and
(ii) combination of certain components in our consolidated statements of comprehensive income into one line, called “Others”.

Recently Adopted and Issued Accounting Pronouncements

Adopted:

1) ASU 2014-09 Revenue from Contracts with Customers: On 1 January 2018, we adopted the new accounting standard ASC 606 Revenue from Contracts with Customers using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new standard to be immaterial to our net income and cash flows from operations on an ongoing basis.

Our cinema and food and beverage revenue continues to be recognized upon sale and completion of the provision of the movie or performance, or delivery of food and beverage items. Where necessary, revenue is deferred until these obligations are discharged. Property rentals continue to be recognized on a straight line basis, and live theatre license fees continue to be based on a percentage of weekly ticket sales. Under the new standard, rewards owed to and points accrued by Members of our customer loyalty programs are held as deferred revenue. Revenue from unredeemed gift cards and certificates (known as “breakage” in our industry) is recognized in proportion to the pattern of rights exercised by the customer, when the Company expects that it is probable that a significant revenue reversal would not occur for any estimated breakage amounts.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-09 Revenue from Contracts with Customers were as follows:

(Dollars in thousands)	Balance at December 31, 2017	Adjustments due to ASU 2014-09	Balance at January 1, 2018
Assets			
Deferred income taxes	$ 24,908	(161)	24,747
Liabilities			
Deferred current revenue	$ 9,850	(355)	9,495
Stockholders' Equity			
Retained earnings	$ 32,679	194	32,873

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated income statement and balance sheet was as follows:

	Quarter to June 30, 2018			Six months to June 30, 2018		
(Dollars in thousands)	As Reported, June 30, 2018	Balances Without Adoption of ASC 606	Effect of change Higher / (Lower)	As Reported, June 30, 2018	Balances Without Adoption of ASC 606	Effect of change Higher / (Lower)
Revenues						
Cinema	$ 80,183	80,192	(9)	$ 152,438	152,187	251
Income tax expense	(1,953)	(1,955)	(2)	(3,108)	(3,039)	69
Net income	$ 4,999	5,006	(7)	$ 8,045	7,863	182

(Dollars in thousands)	As Reported, June 30, 2018	Balances Without Adoption of ASC 606	Effect of change Higher / (Lower)
Assets			
Deferred income taxes	$ 25,776	25,845	(69)
Liabilities			
Deferred current revenue	$ 7,341	7,592	(251)
Stockholders' Equity			
Retained earnings	$ 40,918	40,736	182

Refer to Note 1: - Description of the Business and Segment Reporting for a disaggregation of our revenue sources.

Cinema Segment

Sales of cinema tickets and food and beverage (“F&B”) revenue: recognized when sold and collected, either in cash or by credit card at our theatre locations and through our online selling channels. Sales of bulk or advanced tickets are deferred and recognized as revenue when the ticket is used to gain admission to a particular movie.

Gift Card/Certificate Programs: We run gift card and gift certificate programs in all three countries. Revenue from these programs is deferred and recognized when redeemed. From January 1, 2018, we recognize revenue on unredeemed cards and certificates using the proportional method, whereby breakage revenue is recognized in proportion to the pattern of rights exercised by the customer when the Company expects that it is probable that a significant revenue reversal would not occur for any estimated breakage amounts. This is based on a breakage 'experience rate' which is determined by historical redemption data.

Loyalty revenue: We run a customer loyalty program in every country. From January 1, 2018, a component of revenue from members of our Loyalty Programs relating to the earning of loyalty rewards is deferred until such a time as members redeem rewards, or until we believe the likelihood of redemption by the member is remote. Deferral is based on the progress made toward the next reward, the fair value of that reward, and the likelihood of redemption, determined by historical redemption data.

Advertising revenue: recognized based on contractual arrangements or relevant admissions information, as appropriate.

Real Estate

Live Theatre License Fees: We have real property interest in and license theatre space to third parties for the presentation of theatrical productions. Revenue is recognized in accordance with the license agreement, and is recorded on a weekly basis after the performance of a show has occurred.

Property Rentals: We contractually retain substantially all of the risks and benefits of ownership of our real estate properties and therefore, we account for our tenant leases as operating leases. Accordingly, rental revenue is recognized on a straight-line basis over the lease term.

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2) On January 1, 2018, the Company adopted ASU 2016-18, Statement of Cash Flows, Topic 230: Restricted Cash, a consensus of the FASB Emerging Issues Task Force. This standard requires that amounts generally described as restricted cash and cash equivalents should be combined with unrestricted cash and cash equivalents when reconciling the beginning and end of period balances on the statement of cash flows. This standard has no material effect on our consolidated statement of cash flows.

3) On January 1, 2018, the Company adopted ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments). The standard applies to eight (8) specific cash flow classification issues, reducing the current and potential future diversity in the presentation of certain cash flows. Adoption of this standard has no material effect on our consolidated statement of cash flows.

4) On January 1, 2018, the Company adopted ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This standard (i) requires that an employer disaggregate the service cost component from the other components of net benefit cost, and (ii) specifies how to present the service cost component and the other components of net benefit cost in the income statement and (iii) allows only the service cost component of net benefit cost to be eligible for capitalization. The standard has no material impact on our consolidated financial statements.

5) On January 1, 2018, the Company adopted ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU provides that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the asset is not a "business", thus reducing the number of transactions that need further evaluation for business combination. The standard has no material impact on our current consolidated financial statements, and we do not expect it to be applicable to our consolidated financial statements in the near term unless we enter into a definitive business acquisition transaction.

6) On January 1, 2017, the Company adopted ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard, which became effective for fiscal years beginning after December 15, 2016, provides for the simplification of several aspects of the accounting for share-based payment transactions, including (i) accounting for tax benefits in excess of compensation cost and tax deficiencies, (ii) accounting for forfeitures, and (iii) classification on the statement of cash flows. The only significant impact of the adoption of this standard to the Company is the immediate recognition of excess tax benefits (or "windfalls") and tax deficiencies (or "shortfalls") in the consolidated statement of income. Previously, (i) tax windfalls were recorded in additional paid-in capital ("APIC") in the consolidated statement of stockholders' equity and (ii) tax shortfalls were recorded in APIC to the extent of previous windfalls and then to the consolidated statement of income.

Issued:

v ASUs Effective 2019 and Beyond

· New Lease Accounting Model (ASU 2016-02, Leases: Topic 842)

This standard, which becomes effective for the Company on January 1, 2019, establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees with capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While we are still evaluating the impact of our pending adoption of this new standard on our consolidated financial statements, we expect that upon adoption we will recognize ROU assets and lease liabilities and that the amounts could be material since a majority of our operating cinemas are leased. We have developed an implementation plan. Significant implementation matters that we are addressing include (i) assessment of lease population, (ii) determination of appropriate discount rate to use and (iii) assessment of renewal options to include in the initial lease term. While the Company is continuing to assess the effect of adoption, the Company currently believes the most significant changes relate to the recognition of new ROU assets and lease liabilities on its balance sheet for cinemas currently subject to operating leases.

- Goodwill Impairment Simplification (ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment)

Issued by FASB in January 2017, this standard removes the second step of the two-step impairment test for measuring goodwill and is to be applied on a prospective basis only. The new standard is effective for the Company on January 1, 2020, including interim periods within the year of adoption. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The standard has no material impact on our consolidated financial statements.

Note 3 – Operations in Foreign Currency

We have significant assets in Australia and New Zealand. Historically, we have conducted our Australian and New Zealand operations (collectively "foreign operations") on a self-funding basis where we use cash flows generated by our foreign operations to pay for the expense of foreign operations. Our Australian and New Zealand assets and liabilities are translated from their functional currencies of Australian dollar ("AU$") and New Zealand dollar ("NZ$"), respectively, to the U.S. dollar based on the exchange rate as of June 30, 2018. The carrying value of the assets and liabilities of our foreign operations fluctuates as a result of changes in the exchange rates between the functional currencies of the foreign operations and the U.S. dollar. The translation adjustments are accumulated in the Accumulated Other Comprehensive Income in the Consolidated Balance Sheets.

Due to the natural-hedge nature of our funding policy, we have not historically used derivative financial instruments to hedge against the risk of foreign currency exposure. However, in certain circumstances, we move funds between jurisdictions where circumstances encouraged us to do so from an overall economic standpoint. Going forward, particularly in light of recent tax law changes, we intend to take a more global view of our financial resources, and to be more flexible in making use of resources from one jurisdiction in other jurisdictions.

As of December 31, 2016, we determined that certain historically long-term intercompany loans from our parent company (Reading International, Inc.), to our Australian subsidiary were short-term in nature. Subsequently, on September 1, 2017, we determined that the remaining AU$21.1 million intercompany loans originally classified as long-term should be considered as short-term as well. These loans were paid in full on December 21, 2017. We recognized a foreign exchange gain on these intercompany advances based on the relative strengthening of the Australian dollar to the U.S. dollar in the amount of $825,000 for the six months ended June 30, 2017 in our Consolidated Statements of Income. No further foreign exchange gains or losses were recognized in the first six months of 2018 in relation to these loans.

Presented in the table below are the currency exchange rates for Australia and New Zealand:

Foreign Currency / USD				
As of and for the quarter ended June 30, 2018	As of and for the six months ended	As of and for the twelve months ended December 31, 2017	As of and for the quarter ended June 30, 2017	As of and for the six months ended

Spot
Rate