

VIAD CORP  
Form 10-Q  
May 09, 2008

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**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 March 31, 2008

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: 001-11015

VIAD CORP

(Exact name of registrant as specified in its charter)

**Delaware**

**36-1169950**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**1850 North Central Avenue, Suite 800 Phoenix, Arizona**

**85004-4545**

(Address of principal executive offices)

(Zip Code)

**(602) 207-4000**

(Registrant's telephone number, including area code)

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.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of April 30, 2008, 20,705,554 shares of common stock (\$1.50 par value) were outstanding.

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**VIAD CORP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>(in thousands, except share data)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 108,502	\$ 165,069
Accounts receivable, net of allowance for doubtful accounts of \$2,017 and \$1,569, respectively	91,535	53,099
Inventories	51,467	52,664
Deferred income taxes	20,216	20,567
Other current assets	17,958	15,222
<b>Total current assets</b>	<b>289,678</b>	<b>306,621</b>
Property and equipment, net	171,826	168,893
Other investments and assets	29,141	30,312
Deferred income taxes	28,971	34,704
Goodwill	237,836	228,170
Other intangible assets, net	26,778	12,663
<b>Total Assets</b>	<b>\$ 784,230</b>	<b>\$ 781,363</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 70,127	\$ 68,442
Other current liabilities	107,678	117,152
Current portion of long-term debt and capital lease obligations	2,515	2,462
<b>Total current liabilities</b>	<b>180,320</b>	<b>188,056</b>
Long-term debt and capital lease obligations	11,442	11,714
Pension and postretirement benefits	23,282	23,099
Other deferred items and liabilities	79,038	82,665
Commitments and contingencies (Note 13)		
Minority interest	5,832	5,984
Common stock and other equity:		
Common stock, \$1.50 par value, 200,000,000 shares authorized, 24,934,981 shares issued	37,402	37,402
Additional capital	625,510	635,099
Retained earnings	67,376	51,445
Unearned employee benefits and other	(8,602)	(8,754)
Accumulated other comprehensive income (loss):		
Unrealized gain on investments	351	481

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Cumulative foreign currency translation adjustments	45,802	47,905
Unrecognized net actuarial loss and prior service credit	(1,832)	(1,697)
Common stock in treasury, at cost, 4,234,504 and 4,363,956 shares, respectively	(281,691)	(292,036)
Total common stock and other equity	484,316	469,845
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 784,230</b>	<b>\$ 781,363</b>

See Notes to Condensed Consolidated Financial Statements.

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**VIAD CORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>Three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(in thousands, except per share data)</b>	
Revenues:		
Convention show services	\$ 268,881	\$ 238,851
Exhibit design and construction	60,712	40,376
Travel and recreation services	5,852	4,462
 Total revenues	 335,445	 283,689
 Costs and expenses:		
Costs of services	241,787	212,875
Costs of products sold	65,078	45,696
Corporate activities	2,434	2,309
Restructuring charge		1,210
Interest income	(1,100)	(1,789)
Interest expense	463	466
 Total costs and expenses	 308,662	 260,767
 Income before income taxes and minority interest	 26,783	 22,922
Income tax expense	10,190	8,929
Minority interest	(152)	(57)
 Income from continuing operations	 16,745	 14,050
Loss from discontinued operations		(94)
 <b>Net income</b>	 <b>\$ 16,745</b>	 <b>\$ 13,956</b>
 <b>Diluted income per common share</b>		
Income from continuing operations	\$ 0.81	\$ 0.66
Loss from discontinued operations		
 <b>Net income</b>	 <b>\$ 0.81</b>	 <b>\$ 0.66</b>
 Weighted-average outstanding and potentially dilutive common shares	 20,612	 21,128
 <b>Basic income per common share</b>		
Income from continuing operations	\$ 0.83	\$ 0.68
Loss from discontinued operations		
 <b>Net income</b>	 <b>\$ 0.83</b>	 <b>\$ 0.68</b>

Weighted-average outstanding common shares	20,196	20,651
Dividends declared per common share	\$ 0.04	\$ 0.04

See Notes to Condensed Consolidated Financial Statements.

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**VIAD CORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

	<b>Three months ended March</b>	
	<b>2008</b>	<b>2007</b>
	<b>31,</b>	
	<b>(in thousands)</b>	
<b>Net income</b>	\$ 16,745	\$ 13,956
Other comprehensive income (loss):		
Unrealized gains (losses) on investments:		
Holding gains (losses) arising during the period, net of tax	(130)	12
Unrealized gains on derivative financial instruments:		
Holding gains arising during the period, net of tax		16
Unrealized foreign currency translation adjustments	(2,103)	1,418
Pension and postretirement benefit plans:		
Amortization of prior service credit, net of tax	(206)	(188)
Amortization of net actuarial loss, net of tax	71	148
Other comprehensive income (loss)	(2,368)	1,406
<b>Comprehensive income</b>	<b>\$ 14,377</b>	<b>\$ 15,362</b>

See Notes to Condensed Consolidated Financial Statements.

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**VIAD CORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Three months ended March</b>	
	<b>31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 16,745	\$ 13,956
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,628	5,196
Deferred income taxes	2,540	(3,619)
Loss from discontinued operations		94
Restructuring charge		1,210
Losses (gains) on dispositions of property and other assets	3	(68)
Share-based compensation expense	2,692	2,326
Tax benefits from share-based compensation arrangements	283	1,093
Excess tax benefits from share-based compensation arrangements	(277)	(1,000)
Other non-cash items, net	1,196	1,103
Change in operating assets and liabilities:		
Receivables	(37,497)	(30,881)
Inventories	2,225	789
Accounts payable	2,772	31,391
Restructuring liabilities	(478)	(1,237)
Accrued compensation	(16,571)	(8,358)
Other assets and liabilities, net	(1,398)	(11,310)
Net cash provided by (used in) operating activities	(21,137)	685
<b>Cash flows from investing activities:</b>		
Capital expenditures	(12,043)	(11,263)
Proceeds from sale of short-term investments	1,985	
Acquisition of businesses, net of cash acquired	(23,334)	(29,137)
Proceeds from dispositions of property and other assets	25	479
Net cash used in investing activities	(33,367)	(39,921)
<b>Cash flows from financing activities:</b>		
Payments on debt and capital lease obligations	(722)	(584)
Dividends paid on common stock	(828)	(840)
Excess tax benefits from share-based compensation arrangements	277	1,000
Proceeds from exercise of stock options	573	630
Common stock purchased for treasury	(1,632)	(10,480)
Net cash used in financing activities	(2,332)	(10,274)
Effect of exchange rate changes on cash and cash equivalents	269	62

Net decrease in cash and cash equivalents	(56,567)	(49,448)
Cash and cash equivalents, beginning of year	165,069	178,073
<b>Cash and cash equivalents, end of period</b>	<b>\$ 108,502</b>	<b>\$ 128,625</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for:		
Income taxes	\$ 7,523	\$ 5,406
Interest	\$ 457	\$ 258
Equipment acquired under capital leases	\$ 313	\$ 365

See Notes to Condensed Consolidated Financial Statements.

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**VIAD CORP**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1. Basis of Preparation and Principles of Consolidation**

The accompanying unaudited, condensed consolidated financial statements of Viad Corp ( Viad or the Company ) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2007, included in the Company's Form 10-K (File No. 001-11015), filed with the Securities and Exchange Commission on February 29, 2008.

The consolidated financial statements include the accounts of Viad and all of its subsidiaries. All significant intercompany account balances and transactions between Viad and its subsidiaries have been eliminated in consolidation. The acquisition of The Becker Group, Ltd. ( Becker Group ), described in Note 3, has been included with Exhibitgroup/Giltspur to form the Experiential Marketing Services segment. Viad's existing reportable segments consist of GES Exposition Services, Inc. ( GES ) and Travel and Recreation Services. The Travel and Recreation Services segment consists of Brewster Inc. ( Brewster ) and Glacier Park, Inc. ( Glacier Park ). Glacier Park is an 80 percent owned subsidiary of Viad.

**Note 2. Share-Based Compensation**

Viad grants share-based compensation awards to officers, directors and certain key employees pursuant to the 2007 Viad Corp Omnibus Incentive Plan (the 2007 Plan ), which was approved at the 2007 Annual Meeting of Shareholders. The 2007 Plan has a ten-year life and provides for the following types of awards: (a) incentive and non-qualified stock options; (b) restricted stock and restricted stock units; (c) performance units or performance shares; (d) stock appreciation rights; (e) cash-based awards and (f) certain other stock-based awards. The 1997 Viad Corp Omnibus Incentive Plan (the 1997 Plan ) had a ten-year life and terminated in May 2007. No further awards were granted under the 1997 Plan after its termination. Existing awards from the 1997 Plan will continue to vest and be exercisable until such time that all awards have either vested, been exercised, been forfeited or expired. The number of shares of common stock available for grant under the 2007 Plan is limited to 1,700,000 shares plus shares awarded under the 1997 Plan that subsequently cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent the shares are exercised for, or settled in, vested and non-forfeited shares) up to an aggregate maximum of 1,500,000 shares.

Viad issues shares related to its share-based compensation awards from shares held in treasury. Viad has the authority to repurchase common stock for the purpose of replacing shares issued upon exercise of stock options and in connection with other stock compensation plans. There were no repurchases of common stock under this program during the three months ended March 31, 2008 or 2007. During the three months ended March 31, 2008 and 2007, the Company repurchased 50,061 shares for \$1.6 million and 31,201 shares for \$1.2 million, respectively, related to tax withholding requirements on vested restricted stock and performance-based restricted stock ( PBRs ).

Total share-based compensation expense recognized in the consolidated financial statements during the three months ended March 31, 2008 and 2007 was \$2.7 million and \$2.3 million, respectively. Furthermore, the total tax benefits related to such costs were \$1.0 million and \$884,000 for the three months ended March 31, 2008 and 2007, respectively. No share-based compensation costs were capitalized during the three months ended March 31, 2008 or 2007.

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The following table summarizes stock option activity during the three months ended March 31, 2008:

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Options Exercisable</b>
Options outstanding at January 1, 2008	727,438	\$ 24.93	548,117
Granted	26,600	33.81	
Exercised	(15,664)	24.36	
Forfeited	(2,900)	26.07	
Options outstanding at March 31, 2008	735,474	25.25	590,340

The following table summarizes information concerning stock options outstanding and exercisable as of March 31, 2008:

<b>Range of Exercise Prices</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Shares</b>	<b>Weighted-Average Remaining Contractual Life</b>	<b>Weighted-Average Exercise Price</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>
\$18.40 to \$23.28	125,344	4.5 years	\$ 19.61	125,344	\$ 19.61
\$23.32 to \$24.05	167,593	2.2 years	23.76	167,593	23.76
\$24.22 to \$26.07	160,271	3.4 years	25.14	143,344	25.25
\$26.31 to \$26.47	151,790	3.9 years	26.32	88,310	26.32
\$26.49 to \$38.44	130,476	4.0 years	31.48	65,749	29.13
\$18.40 to \$38.44	735,474	3.5 years	25.25	590,340	24.22

In addition to the above, Viad had stock options outstanding which were granted to employees of MoneyGram International, Inc. ( MoneyGram ) prior to the spin-off of that company in 2004. As of March 31, 2008, there were 73,295 of such options outstanding of which 64,286 were exercisable, both with exercise prices ranging from \$17.74 to \$28.15. The weighted-average remaining contractual life of these options outstanding was approximately 3.2 years. During the three months ended March 31, 2008, 3,347 options were exercised by MoneyGram employees at exercise prices ranging from \$19.57 to \$28.15.

The aggregate intrinsic value related to stock options outstanding as of March 31, 2008 was \$7.9 million and is based on the weighted-average exercise price and Viad's closing stock price of \$36.01 as of March 31, 2008. The total intrinsic value of stock option awards exercised during the three months ended March 31, 2008 and 2007 was \$521,000 and \$713,000, respectively. The fair value of stock options that vested during the three months ended March 31, 2008 and 2007 was \$572,000 and \$548,000, respectively. During the three months ended March 31, 2008 and 2007, Viad received cash proceeds from the exercise of stock options of \$573,000 and \$630,000, respectively. The tax benefits realized for the tax deductions related to the exercise of stock options and vesting of restricted stock and performance-based awards was \$283,000 and \$1.1 million for the three months ended March 31, 2008 and 2007, respectively.

Restricted stock awards were granted during the three months ended March 31, 2008 and 2007, the grant date fair values of which were based on the fair market value on the date of grant. Restricted stock awards vest between three and five years from the date of grant. Viad expects to recognize the unamortized cost of all outstanding restricted stock awards in the consolidated financial statements over a weighted-average period of approximately 2.6 years. Viad also granted awards of PBRS during the three months ended March 31, 2008 and 2007. The weighted-average grant

date fair values are based on the fair market value on the date of grant. PBRS vests based on the extent to which certain incentive performance targets established in the year of grant are achieved at target levels. PBRS awards are subject to a graded vesting schedule whereby one third of the earned shares vest after the first year and the remaining earned shares will vest in one-third increments each year over the next two years on January 1. Share-based compensation expense related to PBRS awards is recognized based on an accelerated multiple-award approach over the requisite service period, which is approximately three years. Viad expects to recognize the unamortized costs of all outstanding PBRS awards in the consolidated financial statements over a weighted-average period of approximately 2.4 years.

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The following table summarizes restricted stock and PBRS activity during the three months ended March 31, 2008:

	<b>Restricted Stock</b>		<b>PBRS</b>	
	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Balance at January 1, 2008	345,800	\$ 32.40	91,912	\$ 32.85
Granted	99,985	33.81	55,000	33.81
Vested	(86,600)	26.30	(52,084)	30.79
Balance at March 31, 2008	359,185	34.26	94,828	34.55

During the three months ended March 31, 2008 and 2007, Viad granted awards of 101,940 and 67,260 units, respectively, to key employees under the performance unit plan ( PUP ). PUP awards are earned based on the level of achievement of predefined performance goals over a three-year performance period. To the extent earned, the PUP awards will be settled in cash based on the market price of Viad's common stock. The aggregate liability related to PUP awards is recorded at estimated fair value based on the number of units expected to vest, and is remeasured on each balance sheet date until the time of cash settlement. As of March 31, 2008 and December 31, 2007, Viad had liabilities recorded of \$4.1 million and \$9.6 million related to the PUP awards, respectively. Share-based compensation expense attributable to PUP awards (recognized ratably over the requisite service period of approximately three years) for the three months ended March 31, 2008 and 2007 was \$1.2 million and \$832,000, respectively. The PUP award for the 2005-2007 period vested December 31, 2007 and a payout of \$6.7 million was distributed in March 2008. No PUP awards vested during the three months ended March 31, 2008 or 2007 nor were there any additional cash settlements of PUP awards or any other share-based compensation awards during those periods.

**Note 3. Acquisition of Businesses**

On January 4, 2008, Viad completed the acquisition of The Becker Group, Ltd., an experiential marketing company headquartered in Baltimore, Maryland specializing in creating immersive, entertaining attractions and brand-based experiences for clients and venues, including shopping malls, movie studios, museums, leading consumer brands and casinos. Becker Group is the leading provider of large-scale, holiday-themed events and experiences for regional shopping malls and lifestyle centers in North America. The operating results of Becker Group have been included in Viad's consolidated financial statements from the date of acquisition.

In connection with the acquisition, the Company paid \$24.3 million in cash and incurred \$325,000 of direct acquisition costs, which were capitalized in the purchase price. The purchase price allocation involves estimates, which may be adjusted during the allowable allocation period of one year from the date of acquisition. The purchase price allocation remains subject to future adjustments as certain intangible asset valuation analyses have not been finalized. The following condensed balance sheet information represents the amounts currently assigned to each major asset and liability caption of Becker Group as of the date of acquisition:

	<b>(in thousands)</b>
Cash and cash equivalents	\$ 1,263
Accounts receivable	1,387
Inventories	1,028
Other current assets	1,401
Property and equipment	1,673
Goodwill	11,848
Other intangible assets	14,969

Total assets acquired	33,569
Accounts payable	(1,675)
Customer deposits	(592)
Other current liabilities	(1,559)
Deferred taxes	(4,942)
Other non-current liabilities	(204)
Total liabilities assumed	(8,972)
Purchase price	\$ 24,597

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The Company recorded \$11.8 million of goodwill in connection with the transaction, which is included in the Experiential Marketing Services reporting segment. The primary factors that contributed to a purchase price resulting in the recognition of goodwill include Becker Group's strong presence and reputation in its established markets, future growth opportunities and its experienced management team. The goodwill related to the Becker Group acquisition is not expected to be deductible for tax purposes. The amounts assigned to other intangible assets include \$3.6 million of non-amortizable trademarks and trade names and \$11.4 million of intangible assets subject to amortization. The amortizable intangible assets consist of \$6.6 million of customer contracts and relationships, \$3.3 million of design libraries, \$1.2 million of non-compete agreements and \$369,000 of proprietary technology. The weighted-average amortization periods for Becker Group's customer contracts and relationships, design libraries, non-compete agreements and proprietary technology assets as of March 31, 2008 were approximately: 5.7 years, 6.5 years, 2.2 years and 2.7 years, respectively. The weighted-average amortization period of the aggregate amortized intangible assets as of March 31, 2008 was approximately 5.5 years. See Note 6.

On February 1, 2007, Viad completed, through its wholly-owned United Kingdom subsidiary GES Service Companies Limited, the acquisition of Melville Exhibition and Event Services Limited and affiliated company, Corporate Technical Services Limited (collectively Melville). In connection with the acquisition, the Company paid \$34.4 million in cash and incurred \$565,000 of direct acquisition costs, which were capitalized in the purchase price. The Company recorded \$31.8 million of goodwill in connection with the transaction, which is included in the GES reporting segment. The primary factors that contributed to a purchase price resulting in the recognition of goodwill include Melville's longstanding presence and reputation in its established markets, its experienced management team and assembled workforce, and economic benefits expected to be derived through GES' worldwide network. The entire amount of goodwill related to the Melville acquisition is expected to be deductible for tax purposes over a period of approximately 15 years. The amounts assigned to other intangible assets include \$7.7 million of non-amortizable trademarks and trade names and \$3.4 million of intangible assets subject to amortization.

The following table summarizes the unaudited pro forma results of operations of Viad for the three months ended March 31, 2007, assuming that the acquisitions of Becker Group and Melville had both been completed at the beginning of that period:

	<b>(in thousands, except per share data)</b>
Revenue	\$ 294,406
Income from continuing operations	\$ 13,389
Net income	\$ 13,295
Diluted net income per share	\$ 0.63
Basic net income per share	\$ 0.64

**Note 4. Inventories**

The components of inventories were as follows:

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>(in thousands)</b>	
Raw materials	\$ 29,509	\$ 28,613
Work in process	21,958	24,051
Inventories	\$ 51,467	\$ 52,664

**Note 5. Property and Equipment**

Property and equipment consisted of the following:



	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	<b>(in thousands)</b>	
Land	\$ 26,817	\$ 27,495
Buildings and leasehold improvements	95,302	95,741
Equipment and other	269,185	261,917
	391,304	385,153
Accumulated depreciation	(219,478)	(216,260)
Property and equipment, net	\$ 171,826	\$ 168,893

Depreciation expense for the three months ended March 31, 2008 and 2007 was \$5.8 million and \$5.0 million, respectively.

**Table of Contents****Note 6. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for the three months ended March 31, 2008 were as follows:

	<b>GES</b>	<b>Experiential Marketing (in thousands)</b>	<b>Travel and Recreation</b>	<b>Total</b>
Balance at January 1, 2008	\$ 185,676	\$	\$ 42,494	\$ 228,170
Business acquisition		11,848		11,848
Foreign currency translation adjustments	(587)		(1,595)	(2,182)
Balance at March 31, 2008	\$ 185,089	\$ 11,848	\$ 40,899	\$ 237,836

A summary of other intangible assets as of March 31, 2008 is presented below: