

VIAD CORP  
Form 10-Q  
May 09, 2012

**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, 2012

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)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>36-1169950</b> (I.R.S. Employer Identification No.)
<b>1850 North Central Avenue, Suite 1900</b>	
<b>Phoenix, Arizona</b> (Address of principal executive offices)	<b>85004-4565</b> (Zip Code)
<b>(602) 207-1000</b> (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 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 or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Small 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, 2012, there were 20,254,029 shares of common stock (\$1.50 par value) outstanding.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## VIAD CORP

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2012	December 31, 2011
	(in thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 71,607	\$ 100,376
Accounts receivable, net of allowance for doubtful accounts of \$1,348 and \$1,072, respectively	79,491	63,583
Inventories	38,002	35,825
Deferred income taxes	21,239	24,200
Other current assets	22,880	14,647
<b>Total current assets</b>	<b>233,219</b>	<b>238,631</b>
Property and equipment, net	196,342	173,813
Other investments and assets	29,853	31,051
Deferred income taxes	36,214	38,755
Goodwill	137,414	133,694
Other intangible assets, net	3,074	1,884
<b>Total Assets</b>	<b>\$ 636,116</b>	<b>\$ 617,828</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 67,520	\$ 51,448
Other current liabilities	93,445	97,331
Current portion of long-term debt and capital lease obligations	1,761	2,018
<b>Total current liabilities</b>	<b>162,726</b>	<b>150,797</b>
Long-term debt and capital lease obligations	1,158	1,221
Pension and postretirement benefits	35,402	35,419
Other deferred items and liabilities	45,840	44,212
<b>Total liabilities</b>	<b>245,126</b>	<b>231,649</b>
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Viad Corp stockholders' equity:		
Common stock, \$1.50 par value, 200,000,000 shares authorized, 24,934,981 shares issued	37,402	37,402
Additional capital	591,499	599,188
Retained deficit	(13,043)	(13,256)
Unearned employee benefits and other	(2,699)	(2,951)
Accumulated other comprehensive income (loss):		
Unrealized gains on investments	315	222
Cumulative foreign currency translation adjustments	39,034	34,648
Unrecognized net actuarial loss and prior service credit	(12,974)	(12,977)
Common stock in treasury, at cost, 4,682,452 and 4,790,920 shares, respectively	(256,616)	(264,382)
<b>Total Viad Corp stockholders' equity</b>	<b>382,918</b>	<b>377,894</b>

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Noncontrolling interest	8,072	8,285
<b>Total stockholders' equity</b>	<b>390,990</b>	<b>386,179</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 636,116</b>	<b>\$ 617,828</b>

See Notes to Condensed Consolidated Financial Statements.

## VIAD CORP

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended March 31,	
	2012	2011
	(in thousands, except per share data)	
<b>Revenues:</b>		
Convention and event services	\$ 215,888	\$ 234,487
Exhibits and environments	46,156	49,851
Travel and recreation services	6,728	5,760
<b>Total revenues</b>	<b>268,772</b>	<b>290,098</b>
<b>Costs and expenses:</b>		
Costs of services	222,109	224,799
Costs of products sold	41,130	48,040
Corporate activities	1,777	1,271
Interest income	(169)	(214)
Interest expense	358	412
Restructuring charges	2,225	269
<b>Total costs and expenses</b>	<b>267,430</b>	<b>274,577</b>
Income before income taxes	1,342	15,521
Income tax expense	527	5,900
Net income	815	9,621
Net loss attributable to noncontrolling interest	212	166
<b>Net income attributable to Viad</b>	<b>\$ 1,027</b>	<b>\$ 9,787</b>
<b>Diluted income per common share</b>		
<b>Net income attributable to Viad common stockholders</b>	<b>\$ 0.05</b>	<b>\$ 0.48</b>
Weighted-average outstanding and potentially dilutive common shares	19,917	20,080
<b>Basic income per common share</b>		
<b>Net income attributable to Viad common stockholders</b>	<b>\$ 0.05</b>	<b>\$ 0.48</b>
Weighted-average outstanding common shares	19,645	19,778
Dividends declared per common share	\$ 0.04	\$ 0.04

See Notes to Condensed Consolidated Financial Statements.

## VIAD CORP

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended March 31,	
	2012	2011
	(in thousands)	
<b>Net income</b>	\$ 815	\$ 9,621
Other comprehensive income:		
Unrealized gains on investments, net of tax	93	58
Unrealized foreign currency translation adjustments, net of tax	4,386	3,553
Amortization of net actuarial loss, net of tax	175	204
Amortization of prior service credit, net of tax	(172)	(198)
Total other comprehensive income	4,482	3,617
Comprehensive income	5,297	13,238
Comprehensive loss attributable to noncontrolling interest	212	166
<b>Comprehensive income attributable to Viad</b>	\$ 5,509	\$ 13,404

See Notes to Condensed Consolidated Financial Statements.

## VIAD CORP

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31,	
	2012	2011
	(in thousands)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 815	\$ 9,621
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,959	6,971
Deferred income taxes	5,558	4,925
Restructuring charges	2,225	269
Losses (gains) on dispositions of property and other assets	(3)	6
Share-based compensation expense	1,217	933
Excess tax benefit from share-based compensation arrangements	(269)	(54)
Other non-cash items, net	1,375	1,050
Change in operating assets and liabilities:		
Receivables	(16,313)	(35,587)
Inventories	(2,151)	5,325
Accounts payable	16,925	31,665
Restructuring liabilities	(809)	(1,625)
Accrued compensation	(6,438)	131
Customer deposits	(5,405)	(2,461)
Income taxes payable	496	663
Other assets and liabilities, net	(1,397)	(1,488)
Net cash provided by operating activities	2,785	20,344
<b>Cash flows from investing activities:</b>		
Capital expenditures	(7,548)	(7,677)
Acquisition of businesses, net of cash acquired	(23,546)	(10,496)
Proceeds from dispositions of property and other assets	9	224
Net cash used in investing activities	(31,085)	(17,949)
<b>Cash flows from financing activities:</b>		
Payments on debt and capital lease obligations	(669)	(714)
Dividends paid on common stock	(813)	(815)
Common stock purchased for treasury	(1,000)	(668)
Excess tax benefit from share-based compensation arrangements	269	54
Proceeds from exercise of stock options	89	163
Net cash used in financing activities	(2,124)	(1,980)
Effect of exchange rate changes on cash and cash equivalents	1,655	2,100
Net increase (decrease) in cash and cash equivalents	(28,769)	2,515
Cash and cash equivalents, beginning of year	100,376	145,841
<b>Cash and cash equivalents, end of period</b>	<b>\$ 71,607</b>	<b>\$ 148,356</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for income taxes	\$ 1,809	\$ 3,500

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Cash paid for interest	\$	286	\$	185
Equipment acquired under capital leases	\$	186	\$	517

See Notes to Condensed Consolidated Financial Statements.



## 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 ( GAAP ) 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, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2011, included in the Company s Form 10-K (File No. 001-11015), filed with the Securities and Exchange Commission on March 9, 2012.

The condensed 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. Viad s reporting segments consist of Marketing & Events U.S., Marketing & Events International and the Travel & Recreation Group.

The Marketing & Events Group, comprised of Global Experience Specialists, Inc. and affiliates ( GES ), specializes in all aspects of the design, planning and production of face-to-face events, immersive environments and brand-based experiences for clients, including show organizers, corporate brand marketers and retail shopping centers. In addition, the Marketing & Events Group provides a variety of immersive, entertaining attractions and brand-based experiences, sponsored events, mobile marketing and other branded entertainment and face-to-face marketing solutions for clients and venues, including shopping malls, movie studios, museums, leading consumer brands and casinos.

The Travel & Recreation Group segment consists of Brewster Inc. ( Brewster ), Glacier Park, Inc. ( Glacier Park ) and Alaskan Park Properties, Inc. ( Alaskan Park Properties ).

Brewster provides tourism services in the Canadian Rockies in Alberta and in other parts of Western Canada. Brewster s operations include the Banff Gondola, Columbia Icefield Glacier Adventure, motorcoach services, charter and sightseeing services, tour boat operations, inbound package tour operations and hotel operations.

Glacier Park operates five lodges, three motor inns and one four-season resort hotel and provides food and beverage operations, retail operations and tour and transportation services in and around Glacier National Park in Montana and Waterton Lakes National Park in Alberta, Canada. Glacier Park is an 80 percent owned subsidiary of Viad.

In September 2011, Alaskan Park Properties, Viad s wholly-owned subsidiary, acquired Denali Backcountry Lodge and Denali Cabins. Denali Backcountry Lodge is a 42-guest room lodge located within Denali National Park and Preserve in Alaska and Denali Cabins are 46 guest cabins located near the entrance to Denali National Park and Preserve. In addition to lodging, Alaskan Park Properties also provides food and beverage operations and package tour and transportation services in and around Denali National Park and Preserve.

**Note 2. Share-Based Compensation**

The following table summarizes share-based compensation expense for the three months ended March 31:

	2012	2011
	(in thousands)	
Restricted stock/performance-based restricted stock ( PBRS )	\$ 747	\$ 678
Performance unit incentive plan ( PUP )	238	65
Stock options	145	147
Restricted stock units/PBRS units	87	43

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Total share-based compensation before income tax benefit	1,217	933
Income tax benefit	(436)	(331)
Total share-based compensation, net of income tax benefit	\$ 781	\$ 602

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In addition, \$108,000 of costs associated with share-based compensation were included in restructuring charges during the three months ended March 31, 2011.

**Restricted Stock and PBRs.** The following table summarizes restricted stock and PBRs activity:

	Restricted Stock		PBRs	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Balance at January 1, 2012	572,022	\$ 20.36	416	\$ 15.36
Granted	158,250	20.58		
Vested	(189,071)	17.99	(416)	15.36
Forfeited	(3,450)	25.23		
Balance at March 31, 2012	537,751	21.22		

The unamortized cost of all outstanding restricted stock awards as of March 31, 2012 was \$6.5 million, which Viad expects to recognize in the consolidated financial statements over a weighted-average period of approximately 2.4 years. During the three months ended March 31, 2012 and 2011, the Company repurchased 50,894 shares for \$1.0 million and 28,152 shares for \$668,000, respectively, related to tax withholding requirements on vested share-based awards. As of March 31, 2012, there were 1,063,907 total shares available for future grant.

**Liability-Based Awards.** The following table summarizes the liability-based award activity:

	Restricted Stock Units		PBRs Units		PUP Awards	
	Units	Weighted-Average Grant Date Fair Value	Units	Weighted-Average Grant Date Fair Value	Units	Weighted-Average Grant Date Fair Value
Balance at January 1, 2012	38,600	\$ 19.07	1,956	\$ 15.36	95,500	\$ 23.02
Granted	15,350	20.60			115,100	20.60
Vested	(13,100)	15.36	(1,956)	15.36		
Balance at March 31, 2012	40,850	20.84			210,600	21.70

As of March 31, 2012 and December 31, 2011, Viad had liabilities of \$270,000 and \$475,000, respectively, related to restricted stock unit and PBRs unit liability awards. A portion of the 2009 PBRs unit awards vested effective December 31, 2009 and cash payouts of \$35,000 and \$52,000 were distributed in January 2012 and January 2011, respectively. Similarly, a portion of the 2009 restricted unit awards vested in February 2012 and cash payouts of \$257,000 were distributed in February 2012.

As of March 31, 2012 and December 31, 2011, Viad had liabilities of \$952,000 and \$714,000, respectively, related to PUP awards. There were no PUP awards which vested during the three months ended March 31, 2012 or 2011. Furthermore, there were no cash settlements of PUP awards during the three months ended March 31, 2012 or 2011.

**Stock Options.** The following table summarizes stock option activity:

	Shares	Weighted-Average	Options Exercisable
		Exercise Price	
Options outstanding at January 1, 2012	584,201	\$ 23.32	396,688
Exercised	(4,562)	19.57	
Forfeited or expired	(191,381)	26.18	
Options outstanding at March 31, 2012	388,258	21.96	294,405

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The total unrecognized cost related to non-vested stock option awards was \$523,000 as of March 31, 2012, which Viad expects to recognize in the consolidated financial statements over a weighted-average period of approximately one year. No stock options were granted during the three months ended March 31, 2012.

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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, 2012, there were 2,402 of such options both outstanding and exercisable at an exercise price of \$19.57. The weighted-average remaining contractual life of these options was less than one year. No options were exercised by MoneyGram participants during the three months ended March 31, 2012.

### Note 3. Acquisition of Businesses

On March 7, 2012, Viad acquired the Banff International Hotel and related assets for \$23.6 million in cash. The Banff International Hotel is a 162-guest room hotel located in downtown Banff, Alberta, Canada and is operated by Brewster within the Travel & Recreation Group. The following information represents the preliminary amounts assigned to the assets and liabilities of the Banff International Hotel as of the date of acquisition:

	(in thousands)
Cash and cash equivalents	\$ 10
Accounts receivable	23
Other current assets	33
Property and equipment	20,287
Goodwill	2,011
Other intangible assets	1,323
<b>Total assets acquired</b>	<b>23,687</b>
Customer deposits	(64)
Other current liabilities	(67)
<b>Total liabilities acquired</b>	<b>(131)</b>
<b>Purchase price</b>	<b>\$ 23,556</b>

The Company recorded \$2.0 million of goodwill in connection with the transaction, which is included in the Travel & Recreation Group. The primary factor that contributed to a purchase price resulting in the recognition of goodwill relates to future growth opportunities. The goodwill is deductible for tax purposes pursuant to regulations in Canada. The amount assigned to other intangible assets of \$1.3 million relates to an operating contract and customer relationships. The weighted-average amortization period related to the other intangible assets was 7.7 years. The transaction costs related to the acquisition were insignificant. The results of operations of the Banff International Hotel have been included in Viad's consolidated financial statements from the date of acquisition.

On September 16, 2011, Viad acquired the Denali Backcountry Lodge and Denali Cabins for \$15.3 million in cash. Denali Backcountry Lodge is a 42-guest room lodge located within Denali National Park and Preserve in Alaska and Denali Cabins consist of 46 guest cabins near the entrance to Denali National Park and Preserve. These properties are operated by Viad's wholly-owned subsidiary, Alaskan Park Properties, within the Travel & Recreation Group. The amounts assigned to the assets and liabilities of Denali Backcountry Lodge and Denali Cabins as of the date of acquisition include: \$11.6 million of property and equipment, \$3.2 million of goodwill, \$626,000 of customer relationship intangible assets and net other liabilities of \$135,000. The primary factor that contributed to a purchase price resulting in the recognition of goodwill relates to future growth opportunities. The acquired goodwill is included in the Travel & Recreation Group and is deductible for tax purposes over a period of 15 years. The weighted average amortization period related to the customer relationship intangible assets was 5.0 years. The transaction costs related to the acquisition were insignificant. The results of operations of Denali Backcountry Lodge and Denali Cabins have been included in Viad's consolidated financial statements from the date of acquisition.

On June 29, 2011, Viad acquired St. Mary Lodge & Resort ( St. Mary ) for \$15.3 million in cash. St. Mary is a 115-guest room hotel located outside of Glacier National Park's east entrance and is operated by Glacier Park within the Travel & Recreation Group. The amounts assigned to the assets and liabilities of St. Mary as of the date of acquisition include: \$12.5 million of property and equipment, \$3.1 million of goodwill, \$60,000 related to a non-amortized business license and net other liabilities of \$390,000. The primary factor that contributed to a purchase price resulting in the recognition of goodwill relates to future growth opportunities. The acquired goodwill is included in the Travel & Recreation Group and is deductible for tax purposes over a period of 15 years. The transaction costs related to the acquisition were insignificant. The results of operations of St. Mary have been included in Viad's consolidated financial statements from the date of acquisition.



On January 5, 2011, Viad acquired Grouse Mountain Lodge for \$10.5 million in cash. Grouse Mountain Lodge is a 145-guest room hotel located in Whitefish, Montana and is operated by Glacier Park within the Travel & Recreation Group. The amounts assigned to the assets and liabilities of Grouse Mountain Lodge as of the date of acquisition include: \$8.8 million of property and equipment, \$1.3 million of goodwill, \$400,000 related to a non-amortized business license and net other assets of \$24,000. The primary factor that contributed to a purchase price resulting in the recognition of goodwill relates to future growth opportunities. The acquired goodwill is included in the Travel & Recreation Group and is deductible for tax purposes over a period of 15 years. The transaction costs related to the acquisition were insignificant. The results of operations of Grouse Mountain Lodge have been included in Viad's consolidated financial statements from the date of acquisition.

The following table summarizes the unaudited pro forma results of operations attributable to Viad for the three months ended March 31, assuming that all of the acquisitions above had each been completed at the beginning of each period:

	2012	2011
	(in thousands, except per share data)	
Revenue	\$ 269,222	\$ 290,783
Depreciation and amortization	\$ 7,131	\$ 7,403
Operating income	\$ 5,534	\$ 16,366
Net income	\$ 1,028	\$ 9,275
Diluted net income per share	\$ 0.05	\$ 0.46
Basic net income per share	\$ 0.05	\$ 0.46

#### Note 4. Inventories

The components of inventories were as follows:

	March 31, 2012	December 31, 2011
	(in thousands)	
Raw materials	\$ 17,830	\$ 18,297
Work in process	20,172	17,528
Inventories	\$ 38,002	\$ 35,825

#### Note 5. Property and Equipment

Property and equipment consisted of the following:

	March 31, 2012	December 31, 2011
	(in thousands)	
Land and land interests	\$ 26,098	\$ 18,134
Buildings and leasehold improvements	125,774	109,077
Equipment and other	315,593	310,186
	467,465	437,397
Accumulated depreciation	(271,123)	(263,584)
Property and equipment, net	\$ 196,342	\$ 173,813

Depreciation expense for both the three months ended March 31, 2012 and 2011 was \$6.8 million.





**Note 6. Other Investments and Assets**

Other investments and assets consisted of the following:

	March 31, 2012	December 31, 2011
	(in thousands)	
Cash surrender value of life insurance	\$ 18,423	\$ 18,812
Workers compensation insurance security deposits	4,650	4,658
Other	6,780	7,581
 Total other investments and assets	 \$ 29,853	 \$ 31,051

**Note 7. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for the three months ended March 31, 2012 were as follows:

	Marketing & Events U.S.	Marketing & Events International	Travel & Recreation Group	Total
	(in thousands)			
Balance at January 1, 2012	\$ 62,686	\$ 22,198	\$ 48,810	\$ 133,694
Business acquisition			2,011	2,011
Foreign currency translation adjustments		610	1,099	1,709
 Balance at March 31, 2012	 \$ 62,686	 \$ 22,808	 \$ 51,920	 \$ 137,414

A summary of other intangible assets as of March 31, 2012 is presented below:

	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Carrying Value
<b>Amortized intangible assets:</b>			
Contracts and customer relationships	\$ 4,469	\$ (1,891)	\$ 2,578
Other	70	(34)	36
	4,539	(1,925)	2,614
<b>Unamortized intangible assets:</b>			
Business licenses	460		460
 Total	 \$ 4,999	 \$ (1,925)	 \$ 3,074

A summary of other intangible assets as of December 31, 2011 is presented below:

	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Carrying Value
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Amortized intangible assets: