

VIAD CORP
Form 10-Q
May 08, 2007

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, 2007

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2007, 21,074,044 shares of common stock (\$1.50 par value) were outstanding.

PART I FINANCIAL INFORMATION**Item 1. Financial Statements.**

VIAD CORP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2007	December 31, 2006
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 128,625	\$ 178,073
Accounts receivable, net of allowance for doubtful accounts of \$1,278 and \$1,374, respectively	83,722	40,757
Inventories	45,638	43,523
Deferred income taxes	21,052	16,521
Other current assets	12,389	8,444
Total current assets	291,426	287,318
Property and equipment, net	146,196	135,958
Other investments and assets	28,183	25,148
Deferred income taxes	37,952	39,152
Goodwill	213,999	184,154
Other intangible assets, net	13,751	834
Total Assets	\$ 731,507	\$ 672,564
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 71,504	\$ 35,039
Other current liabilities	108,058	94,546
Current portion of long-term debt and capital lease obligations	2,125	2,099
Total current liabilities	181,687	131,684
Long-term debt and capital lease obligations	12,673	12,943
Pension and postretirement benefits	25,359	25,480
Other deferred items and liabilities	80,252	67,314
Commitments and contingencies (Note 15)		
Minority interest	5,163	5,220
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	631,204	637,177
Retained earnings	23,246	20,065
Unearned employee benefits and other	(12,760)	(14,214)
Accumulated other comprehensive income (loss):		
Unrealized gain on investments	510	498
Unrealized loss on derivative financial instruments	(87)	(103)

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Cumulative foreign currency translation adjustments	24,956	23,538
Unrecognized net actuarial loss and prior service cost	(3,075)	(3,035)
Common stock in treasury, at cost, 3,860,954 and 3,662,716 shares, respectively	(275,023)	(271,405)
Total common stock and other equity	426,373	429,923
Total Liabilities and Stockholders Equity	\$ 731,507	\$ 672,564

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,	
	2007	2006
	(in thousands, except per share data)	
Revenues:		
Convention show services	\$ 238,851	\$ 187,263
Exhibit design and construction	40,376	41,588
Travel and recreation services	4,462	4,919
Total revenues	283,689	233,770
Costs and expenses:		
Costs of services	212,875	170,612
Costs of products sold	45,696	45,448
Corporate activities	2,309	1,852
Gains on sale of corporate assets		(3,468)
Restructuring charges (recoveries)	1,210	(18)
Impairment recoveries		(843)
Net interest income	(1,323)	(1,437)
Total costs and expenses	260,767	212,146
Income before income taxes and minority interest	22,922	21,624
Income tax expense	8,929	7,979
Minority interest	(57)	(112)
Income from continuing operations	14,050	13,757
Loss from discontinued operations	(94)	(149)
Net income	\$ 13,956	\$ 13,608
Diluted income per common share		
Income from continuing operations	\$ 0.66	\$ 0.62
Loss from discontinued operations		(0.01)
Net income	\$ 0.66	\$ 0.61
Weighted-average outstanding and potentially dilutive common shares	21,128	22,202
Basic income per common share		
Income from continuing operations	\$ 0.68	\$ 0.63

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Loss from discontinued operations			(0.01)
Net income	\$	0.68	\$ 0.62
Weighted-average outstanding common shares		20,651	21,812
Dividends declared per common share	\$	0.04	\$ 0.04

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March	
	31,	
	2007	2006
	(in thousands)	
Net income	\$ 13,956	\$ 13,608
Other comprehensive income (loss):		
Unrealized gains on investments:		
Holding gains arising during the period, net of tax	12	58
Unrealized gain (loss) on derivative financial instruments:		
Holding gain (loss) arising during the period, net of tax	16	(18)
Unrealized foreign currency translation adjustments	1,418	(539)
Pension and postretirement benefit plans:		
Amortization of prior service cost, net of tax	(188)	
Amortization of net actuarial loss, net of tax	148	
Other comprehensive income (loss)	1,406	(499)
Comprehensive income	\$ 15,362	\$ 13,109

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March	
	31,	
	2007	2006
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 13,956	\$ 13,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,196	4,823
Deferred income taxes	(3,619)	928
Loss from discontinued operations	94	149
Restructuring charges (recoveries)	1,210	(18)
Gains on dispositions of property and other assets	(68)	(3,476)
Share-based compensation expense	2,326	2,021
Tax benefits from share-based compensation arrangements	1,093	3,001
Excess tax benefits from share-based compensation arrangements	(1,000)	(2,063)
Other non-cash items, net	1,103	953
Change in operating assets and liabilities:		
Receivables	(30,881)	(13,522)
Inventories	789	224
Accounts payable	31,391	6,088
Restructuring liabilities	(1,237)	(352)
Other assets and liabilities, net	(19,668)	(6,579)
Net cash provided by operating activities	685	5,785
Cash flows from investing activities:		
Capital expenditures	(11,263)	(6,070)
Acquisition of business, net of cash acquired	(29,137)	
Proceeds from dispositions of property and other assets	479	13,264
Net cash provided by (used in) investing activities	(39,921)	7,194
Cash flows from financing activities:		
Payments on debt and capital lease obligations	(584)	(533)
Dividends paid on common stock	(840)	(881)
Common stock purchased for treasury	(10,480)	(13,290)
Excess tax benefits from share-based compensation arrangements	1,000	2,063
Proceeds from exercise of stock options	630	1,873
Net cash used in financing activities	(10,274)	(10,768)
Effect of exchange rate changes on cash and cash equivalents	62	(107)

Net increase (decrease) in cash and cash equivalents	(49,448)	2,104
Cash and cash equivalents, beginning of year	178,073	152,601
Cash and cash equivalents, end of period	\$ 128,625	\$ 154,705

Supplemental disclosure of cash flow information

Cash paid during the period for:		
Income taxes	\$ 5,406	\$ 2,798
Interest	\$ 258	\$ 310
Equipment acquired under capital leases	\$ 365	\$ 272

See Notes to Consolidated Financial Statements.

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VIAD CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Preparation and Principles of Consolidation

The accompanying unaudited 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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2006, included in the Company's Form 10-K (File No. 001-11015), filed with the Securities and Exchange Commission on March 1, 2007.

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. Viad's reporting segments consist of: GES Exposition Services, Inc. (GES), Exhibitgroup/Giltspur (Exhibitgroup) and Travel and Recreation Services.

Note 2. Share-Based Compensation

Viad grants share-based compensation awards pursuant to the Viad Corp Omnibus Incentive Plan (the Omnibus Plan), which was adopted by Viad's stockholders in 1997. The Omnibus Plan provides for the following types of awards to officers, directors and certain key employees: (a) incentive and non-qualified stock options; (b) restricted stock; (c) performance-based awards; and (d) stock appreciation rights. The number of shares of common stock available for grant under the Omnibus Plan in each calendar year is limited to two percent of the total number of shares of common stock outstanding as of the first day of each year, provided that any shares available for grant in a particular year which are not, in fact, granted in that year will be added to the shares available for grant in any subsequent year. Viad issues shares related to its share-based compensation awards from its Employee Equity Trust and 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, 2007 or 2006.

Total share-based compensation expense recognized in the consolidated financial statements during the three months ended March 31, 2007 and 2006 was \$2.3 million and \$2.0 million, respectively. Furthermore, the total tax benefits related to such costs were \$884,000 and \$772,000 for the three months ended March 31, 2007 and 2006, respectively. No share-based compensation costs were capitalized during the three months ended March 31, 2007 or 2006.

The following table summarizes stock option activity during the three months ended March 31, 2007:

	Shares	Weighted-Average Exercise Price	Options Exercisable
Options outstanding at January 1, 2007	836,912	\$ 24.19	600,707
Granted	21,400	38.44	
Exercised	(18,424)	23.44	
Forfeited	(6,393)	27.03	
Options outstanding at March 31, 2007	833,495	24.55	642,399

The following table summarizes information concerning stock options outstanding and exercisable as of March 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
\$17.51 to \$23.28	177,791	4.6 years	\$ 19.24	177,791	\$ 19.24
\$23.32 to \$24.05	193,579	3.1 years	23.77	193,579	23.77
\$24.22 to \$26.07	180,655	4.4 years	25.16	144,877	25.40
\$26.31 to \$26.37	154,290	4.9 years	26.31	59,900	26.31
\$26.47 to \$38.44	127,180	4.3 years	30.15	66,252	28.08
\$17.51 to \$38.44	833,495	4.2 years	24.55	642,399	23.56

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 as described in Note 16. As of March 31, 2007, there were 87,922 of such options outstanding of which 69,673 were exercisable, both with exercise prices ranging from \$17.51 to \$28.15. The weighted-average remaining contractual life of these options outstanding was approximately 4.1 years. During the three months ended March 31, 2007, a total of 8,477 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, 2007 was \$11.7 million and is based on the weighted-average exercise price and Viad's closing stock price of \$38.60 as of March 31, 2007. The total intrinsic value of stock option awards exercised during the three months ended March 31, 2007 and 2006 was \$713,000 and \$1.1 million, respectively. The fair value of stock options that vested during the three months ended March 31, 2007 and 2006 was \$548,000 and \$1.9 million, respectively. During the three months ended March 31, 2007 and 2006, Viad received cash proceeds from the exercise of stock options of \$630,000 and \$1.9 million, respectively. The actual tax benefits realized for the tax deductions related to the exercise of stock options and vesting of restricted stock and performance-based awards was \$1.1 million and \$3.0 million for the three months ended March 31, 2007 and 2006, respectively.

Restricted stock awards were granted during the three months ended March 31, 2007 and 2006, 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 awards in the consolidated financial statements over a weighted-average period of approximately 1.6 years. Viad also granted performance-based restricted stock (PBRS) awards during the three months ended March 31, 2007 and 2006. The weighted-average grant date fair values are based on the fair market value on the date of grant. PBRS vests if 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, an additional one third after two years and the balance after three years from the date of grant. 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 awards in the consolidated financial statements over a weighted-average period of approximately 1.1 years.

The following table summarizes restricted stock and PBRS activity during the three months ended March 31, 2007:

Restricted Stock		PBRS	
Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value

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Balance at January 1, 2007	295,225	\$	30.02	109,788	\$	28.79
Granted	76,400		38.57	33,400		38.44
Vested	(23,875)		24.12	(51,276)		27.81
Forfeited	(350)		38.43			
Balance at March 31, 2007	347,400		32.29	91,912		32.85

During the three months ended March 31, 2007 and 2006, Viad granted performance unit incentive plan (PUP) awards to key employees pursuant to the Omnibus Plan. PUP awards are earned based on the level of achievement of predefined performance goals over the 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, 2007, Viad had a liability recorded of \$7.6 million related to the PUP awards. Share-based compensation expense related to the PUP awards is recognized ratably over the requisite service period, which is approximately three years. There were no PUP awards which vested during the three months ended March 31, 2007 or 2006. Furthermore, there were no cash settlements of PUP awards or any other share-based compensation awards during such periods.

Note 3. Impairment Losses and Recoveries

During the three months ended March 31, 2006, Viad recorded insurance recoveries of \$843,000 related to claims associated with GES's operations in New Orleans damaged by Hurricane Katrina. Certain claims related to Exhibitgroup remain pending with Viad's insurance carriers and the amounts of recoveries related to Exhibitgroup, if any, remain uncertain.

Note 4. Gains on Sale of Corporate Assets

In January 2006, Viad sold its remaining 50 percent interest in its corporate aircraft along with related equipment to MoneyGram for \$10.0 million in cash, resulting in a gain of \$1.7 million. See Note 16.

Also in January 2006, Viad sold certain undeveloped land in Phoenix, Arizona for \$2.9 million in cash to an unrelated third party, resulting in a gain of \$1.7 million.

Note 5. Acquisition of Business

On February 1, 2007, Viad, through its wholly-owned United Kingdom subsidiary GES Service Companies Limited, completed the acquisition of Melville Exhibition and Event Services Limited and affiliated company, Corporate Technical Services Limited (collectively Melville). Melville is the leading exhibition services contractor in the United Kingdom and provides a full spectrum of organizer and exhibitor services including shell scheme, electrical and lighting services, display installation and design services and registration and lead retrieval services. The acquisition of Melville expands GES's operations to the major exhibition facilities within the United Kingdom and also provides GES a platform for expansion into other international markets. The Melville companies are wholly-owned subsidiaries of GES Service Companies Limited. The operating results of Melville have been included in Viad's consolidated financial statements from the date of acquisition.

In connection with the acquisition, the Company paid the former owners of Melville \$34.4 million in cash and incurred \$565,000 of direct acquisition costs, which were capitalized in the purchase price. In addition, the Company capitalized \$1.3 million of restructuring costs related to the transaction. These costs primarily relate to the planned consolidation of duplicate facilities at Melville, as well as certain severance and other employee benefit costs. The restructuring costs were recognized as a liability on the date of acquisition, which resulted in additional goodwill. See Note 14.

The Company is in the process of finalizing the allocation of the purchase price to the individual assets acquired and liabilities assumed. The purchase price allocation involves estimates, which may be adjusted during the allowable allocation period of one year from the date of acquisition. The following condensed balance sheet information represents the preliminary amounts assigned to each major asset and liability caption of Melville as of the date of acquisition:

	(in thousands)
Cash and cash equivalents	\$ 5,848
Accounts receivable	11,383
Other current assets	6,063
Property and equipment	4,978
Goodwill	29,282
Other intangible assets	13,090
Total assets acquired	70,644

Accounts payable	(16,632)
Customer deposits	(11,035)
Other current liabilities	(5,890)
Other non-current liabilities	(2,102)
Total liabilities acquired	(35,659)
Purchase price	\$ 34,985

The Company recorded \$29.3 million of goodwill in connection with the transaction, which is included in the GES reporting segment. 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 \$9.2 million of non-amortizable trademarks and trade names and \$3.8 million of intangible assets subject to amortization. The amortizable intangible assets consist of \$3.1 million of customer relationships, \$393,000 of customer contracts and \$305,000 of other intangible assets. The amortizable

intangible assets are expected to be recognized in the consolidated financial statements over a weighted-average amortization period of approximately 5.6 years. See Note 8.

The following table summarizes the unaudited pro forma results of operations of Viad for the three months ended March 31, 2007 and 2006, assuming that the acquisition of Melville had been completed at the beginning of each period:

	2007	2006
	(in thousands, except per share data)	
Revenue	\$ 293,260	\$ 261,786
Income from continuing operations	\$ 14,596	\$ 16,034
Net income	\$ 14,502	\$ 15,885
Diluted net income per share	\$ 0.69	\$ 0.72
Basic net income per share	\$ 0.70	\$ 0.73

Note 6. Inventories

The components of inventories were as follows:

	March 31, 2007	December 31, 2006
	(in thousands)	
Raw materials	\$ 26,841	\$ 24,068
Work in process	18,797	19,455
Inventories	\$ 45,638	\$ 43,523

Note 7. Property and Equipment

Property and equipment consisted of the following:

	March 31, 2007	December 31, 2006
	(in thousands)	
Land	\$ 24,553	\$ 24,375
Buildings and leasehold improvements	83,307	80,831
Equipment and other	236,510	225,883
	344,370	331,089
Accumulated depreciation	(198,174)	(195,131)
Property and equipment, net	\$ 146,196	\$ 135,958

Depreciation expense for the three months ended March 31, 2007 and 2006 was \$5.0 million and \$4.8 million, respectively.

Note 8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2007 were as follows:

GES	Travel and Recreation	Total
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		(in thousands)	
Balance at January 1, 2007	\$ 149,490	\$ 34,664	\$ 184,154
Melville acquisition	29,282		29,282
Foreign currency translation adjustments	145	418	563
Balance at March 31, 2007	\$ 178,917	\$ 35,082	\$ 213,999

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A summary of other intangible assets as of March 31, 2007 is presented below:

	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Carrying Value
Amortized intangible assets:			
Customer-related intangibles	\$ 4,453	\$ (636)	\$ 3,817
Other	900	(245)	655