

VIAD CORP
Form 10-Q
November 06, 2017

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 September 30, 2017

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	(I.R.S. Employer
incorporation or organization	Identification No.)
1850 North Central Avenue, Suite 1900	
Phoenix, Arizona	85004-4565
(Address of principal executive offices)	(Zip Code)

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(602) 207-1000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

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 Act). Yes No

As of October 27, 2017, there were 20,411,480 shares of Common Stock (\$1.50 par value) outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VIAD CORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 53,481	\$ 20,900
Accounts receivable, net of allowances for doubtful accounts of \$1,897 and \$1,342, respectively	129,105	104,648
Inventories	39,753	31,420
Other current assets	23,973	18,449
Total current assets	246,312	175,417
Property and equipment, net	295,757	279,858
Other investments and assets	46,745	44,297
Deferred income taxes	34,391	42,549
Goodwill	263,919	254,022
Other intangible assets, net	65,672	73,673
Total Assets	\$ 952,796	\$ 869,816
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 88,510	\$ 67,596
Customer deposits	53,093	42,723
Accrued compensation	28,094	29,913
Other current liabilities	52,318	30,390
Current portion of debt and capital lease obligations	124,574	174,968
Total current liabilities	346,589	345,590
Long-term debt and capital lease obligations	60,627	74,243
Pension and postretirement benefits	26,826	28,611
Other deferred items and liabilities	50,260	50,734
Total liabilities	484,302	499,178
Commitments and contingencies		
Stockholders' equity		
Viad Corp stockholders' equity:		
Common stock, \$1.50 par value, 200,000,000 shares authorized, 24,934,981 shares issued and outstanding	37,402	37,402
Additional capital	573,660	573,841
Retained earnings	89,552	16,291

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Unearned employee benefits and other	239	172
Accumulated other comprehensive income (loss):		
Unrealized gain on investments	564	421
Cumulative foreign currency translation adjustments	(10,264)	(29,084)
Unrecognized net actuarial loss and prior service credit, net	(10,544)	(10,728)
Common stock in treasury, at cost, 4,519,023 and 4,613,520 shares, respectively	(226,145)	(230,960)
Total Viad Corp stockholders' equity	454,464	357,355
Noncontrolling interest	14,030	13,283
Total stockholders' equity	468,494	370,638
Total Liabilities and Stockholders' Equity	\$ 952,796	\$ 869,816

Refer to Notes to Condensed Consolidated Financial Statements.

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VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Revenue:				
Exhibition and event services	\$ 198,868	\$ 240,278	\$ 750,111	\$ 681,592
Exhibits and environments	33,251	44,785	119,988	123,871
Pursuit services	106,980	97,402	159,581	143,111
Total revenue	339,099	382,465	1,029,680	948,574
Costs and expenses:				
Costs of services	254,963	278,764	813,456	743,032
Costs of products sold	37,070	44,784	117,072	118,891
Business interruption gain	(1,091)	—	(2,231)	—
Corporate activities	4,474	2,772	10,092	7,390
Interest income	(74)	(44)	(174)	(138)
Interest expense	2,117	1,489	6,281	4,109
Restructuring charges	255	1,697	817	3,664
Impairment charges (recoveries)	(24,467)	120	(29,098)	120
Total costs and expenses	273,247	329,582	916,215	877,068
Income from continuing operations before income taxes	65,852	52,883	113,465	71,506
Income tax expense	20,010	17,878	32,929	23,652
Income from continuing operations	45,842	35,005	80,536	47,854
Loss from discontinued operations	(101)	(221)	(408)	(771)
Net income	45,741	34,784	80,128	47,083
Net income attributable to noncontrolling interest	(1,084)	(992)	(747)	(765)
Net income attributable to Viad	\$ 44,657	\$ 33,792	\$ 79,381	\$ 46,318
Diluted income per common share:				
Continuing operations attributable to Viad common stockholders	\$ 2.19	\$ 1.68	\$ 3.91	\$ 2.33
Discontinued operations attributable to Viad common stockholders	—	(0.01)	(0.02)	(0.04)
Net income attributable to Viad common stockholders	\$ 2.19	\$ 1.67	\$ 3.89	\$ 2.29
Weighted-average outstanding and potentially dilutive common shares				
	20,436	20,207	20,382	20,150
Basic income per common share:				
Continuing operations attributable to Viad common stockholders	\$ 2.19	\$ 1.68	\$ 3.91	\$ 2.33
Discontinued operations attributable to Viad common stockholders	—	(0.01)	(0.02)	(0.04)
Net income attributable to Viad common stockholders	\$ 2.19	\$ 1.67	\$ 3.89	\$ 2.29
Weighted-average outstanding common shares	20,166	20,017	20,130	19,972
Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30
Amounts attributable to Viad common stockholders				
Income from continuing operations	\$ 44,758	\$ 34,013	\$ 79,789	\$ 47,089
Loss from discontinued operations	(101)	(221)	(408)	(771)

Net income	\$44,657	\$33,792	\$79,381	\$46,318
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Refer to Notes to Condensed Consolidated Financial Statements.

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VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$45,741	\$34,784	\$80,128	\$47,083
Other comprehensive income (loss):				
Unrealized gains on investments, net of tax ⁽¹⁾	48	42	143	62
Unrealized foreign currency translation adjustments, net of tax ⁽¹⁾	9,115	(3,849)	18,820	723
Change in net actuarial gain, net of tax ⁽¹⁾	103	93	385	334
Change in prior service cost, net of tax ⁽¹⁾	(67)	(78)	(201)	(234)
Comprehensive income	54,940	30,992	99,275	47,968
Comprehensive income attributable to noncontrolling interest	(1,084)	(992)	(747)	(765)
Comprehensive income attributable to Viad	\$53,856	\$30,000	\$98,528	\$47,203

⁽¹⁾The tax effect on other comprehensive income (loss) is not significant.
Refer to Notes to Condensed Consolidated Financial Statements.

VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$80,128	\$47,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,499	31,206
Deferred income taxes	318	(3,549)
Loss from discontinued operations	408	771
Restructuring charges	817	3,664
Impairment charges (recoveries)	(29,098)	120
Gains on dispositions of property and other assets	465	126
Share-based compensation expense	9,484	4,709
Excess tax benefit from share-based compensation arrangements	—	(60)
Other non-cash items, net	3,603	4,644
Change in operating assets and liabilities (excluding the impact of acquisitions):		
Receivables	(25,966)	(41,510)
Inventories	(6,839)	(12,903)
Accounts payable	18,998	38,522
Restructuring liabilities	(1,748)	(2,518)
Accrued compensation	(7,455)	(620)
Customer deposits	9,076	26,954
Income taxes payable	16,058	5,280
Other assets and liabilities, net	3,895	13,503
Net cash provided by operating activities	114,643	115,422
Cash flows from investing activities		
Capital expenditures	(39,493)	(32,582)
Proceeds from insurance	31,570	—
Cash paid for acquired businesses, net	(1,661)	(145,735)
Proceeds from dispositions of property and other assets	734	774
Net cash used in investing activities	(8,850)	(177,543)
Cash flows from financing activities		
Proceeds from borrowings	60,574	153,000
Payments on debt and capital lease obligations	(128,808)	(86,989)
Dividends paid on common stock	(6,119)	(6,079)
Debt issuance costs	(5)	(340)
Common stock purchased for treasury	(1,272)	(679)
Excess tax benefit from share-based compensation arrangements	—	60
Net cash provided by (used in) financing activities	(75,630)	58,973
Effect of exchange rate changes on cash and cash equivalents	2,418	(702)
Net change in cash and cash equivalents	32,581	(3,850)
Cash and cash equivalents, beginning of year	20,900	56,531
Cash and cash equivalents, end of period	\$53,481	\$52,681

Refer to Notes to Condensed Consolidated Financial Statements.

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VIAD CORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation 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”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these financial statements do not include all of the information required by GAAP or Securities and Exchange Commission (“SEC”) rules and regulations for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of the results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with Viad’s Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 6, 2017.

The condensed consolidated financial statements include the accounts of Viad and its subsidiaries. All significant intercompany account balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Estimates and assumptions are used in accounting for, among other things, the fair value of Viad’s reporting units used to perform annual impairment testing of recorded goodwill; allowances for uncollectible accounts receivable; provisions for income taxes, including uncertain tax positions; valuation allowances related to deferred tax assets; liabilities for losses related to self-insured liability claims; liabilities for losses related to environmental remediation obligations; sublease income associated with restructuring liabilities; assumptions used to measure pension and postretirement benefit costs and obligations; assumptions used to determine share-based compensation costs under the fair value method; and the allocation of purchase price of acquired businesses. Actual results could differ from these and other estimates.

Insurance Recoveries

Receipts from insurance up to the amount of the recognized losses are considered recoveries and are accounted for when they are probable of receipt. Anticipated proceeds in excess of the recognized loss are considered a gain contingency. A contingency gain for anticipated insurance proceeds in excess of losses already recognized is not recognized until all contingencies relating to the insurance claim have been resolved.

On December 29, 2016, the Mount Royal Hotel was damaged by a fire and closed. During the fourth quarter of 2016, the Company recorded an asset impairment loss of \$2.2 million and an offsetting impairment recovery (and related insurance receivable) as the losses related to the fire were covered by Viad’s property and business interruption insurance. During July 2017, Viad resolved its property and business interruption insurance claims for a total of \$36.3 million, of which \$9.0 million was received during the first six months of 2017 with the remainder received during the third quarter. The Company allocated \$2.2 million to an insurance receivable, \$29.3 million was recorded as an

impairment recovery (partially offset by impairment charges of \$0.2 million) related to construction costs to re-open the hotel, \$2.2 million was recorded as a business interruption gain for the recovery of lost profits, \$1.1 million was recorded as contra-expense to offset non-capitalizable costs incurred by the Company, and the remaining \$1.5 million was recorded as deferred revenue, which will be recognized over the periods when the business interruption losses are actually incurred.

Nature of Business

Viad is an international experiential services company with operations in the United States, Canada, the United Kingdom, continental Europe, the United Arab Emirates, and Hong Kong. Viad is committed to providing unforgettable experiences to its clients and guests. Viad operates through three reportable business segments: GES U.S., GES International (collectively, “GES”), and Pursuit.

GES

GES is a global, full-service provider for live events that produces exhibitions, conferences, corporate events, and consumer events. GES offers a comprehensive range of live event services and a full suite of audio-visual services from creative and technology to content and design, along with online tools powered by next generation technologies that help clients easily manage the complexities of their events.

GES' clients include event organizers and corporate brand marketers. Corporate brand marketers include exhibitors and domestic and international corporations that want to promote their brands, services and innovations, feature new products, and build business relationships. GES serves corporate brand marketers when they exhibit at shows and when GES is engaged to manage their global exhibit program or produce their proprietary corporate events.

Pursuit

Pursuit is a collection of iconic natural and cultural destination travel experiences that enjoy perennial demand. Pursuit offers guests distinctive and world renowned experiences through its collection of unique hotels, lodges, recreational attractions, and transportation services. Pursuit is composed of four lines of business: (i) Hospitality; (ii) Attractions; (iii) Transportation, and (iv) Travel Planning. These four lines of business work together, driving economies of scope and meaningful scale in and around the iconic destinations of Banff, Jasper, and Waterton Lakes National Parks and Vancouver in Canada, and Glacier, Denali, and Kenai Fjords National Parks in the United States. Pursuit is composed of Brewster Travel Canada, the Alaska Collection, Glacier Park, Inc., and FlyOver Canada.

Impact of Recent Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements:

Standard	Description	Date of adoption	Effect on the financial statements
Standards Not Yet Adopted			
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	<p>The standard establishes a new recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company may adopt either retrospectively to each prior period presented with the option to elect certain practical expedients or with the cumulative effect recognized at the date of initial application and providing certain disclosures.</p> <p>Subsequent to the issuance of ASU 2014-09, the FASB issued several amendments in 2016 which do not change the core principle of the guidance stated in ASU 2014-09. Rather, they are intended to clarify and improve understanding of certain topics included within the revenue standard.</p>	January 1, 2018	<p>The Company is currently evaluating the impact of the adoption of this new guidance on its financial position or results of operations including analyzing its current portfolio of customer contracts. The Company has assigned internal resources in addition to the engagement of a third-party service provider to assist in the evaluation of the impact on its accounting policies, processes, and system requirements. Based on the Company's preliminary assessment, the adoption of this standard will not have a material impact on Viad's consolidated financial statements. Although significant additional disclosures will be required, the Company expects the immaterial impact to primarily relate to the deferral of certain commissions which were previously expensed as incurred but will generally be capitalized and amortized over the period of contract performance, and the deferral of certain costs incurred in connection with trade shows which were previously expensed as incurred but will generally be capitalized and expensed upon the completion of the show. The Company will adopt the standard on January 1, 2018 and will be using the modified retrospective transition method. Additionally, the new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. The Company is continuing its assessment, which may identify other impacts.</p>
ASU 2016-02, Leases (Topic 842)	<p>The amendment requires lessees to recognize on their balance sheet a right-of-use asset and a lease liability for leases with lease terms greater than one year. The amendment requires</p>	January 1, 2019	<p>The Company is currently evaluating the potential impact of the adoption of this new guidance on its financial position or results of operations including analyzing its existing operating leases. Based on the Company's current assessment, the adoption of this standard will have a material impact on Viad's consolidated balance sheets, but the income statement is not expected to be materially</p>

additional disclosures about leasing arrangements, and requires a modified retrospective approach to adoption. Early adoption is permitted.

impacted. The Company expects the most significant impact will relate to facility and equipment leases and embedded lease arrangements which are currently recorded as operating leases. The Company is continuing its assessment, which may identify other impacts. The Company will adopt the standard on January 1, 2019.

ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments	The amendment provides guidance on eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Early adoption is permitted.	January 1, 2018	The adoption of this new guidance is not expected to have a significant effect on Viad's financial position or results of operations.
ASU 2016-16, Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory	The amendment eliminates an exception in ASC 740 which prohibits the recognition of current and deferred income tax effects for intra-entity transfers of assets other than inventory until the asset has been sold to an outside party. The amendment requires an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time that the transfer occurs.	January 1, 2018	The adoption of this new guidance is not expected to have a significant effect on Viad's financial position or results of operations.

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Standard	Description	Date of adoption	Effect on the financial statements
Standards Not Yet Adopted (Continued)			
ASU 2017-01, Business Combination (Topic 805) - Clarifying the Definition of a Business	The amendment provides guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses.	January 1, 2018	The adoption of this new guidance is not expected to have a significant effect on Viad's consolidated financial statements.
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment	The amendment eliminates the requirement to estimate the implied fair value of goodwill if it was determined that the carrying amount of a reporting unit exceeded its fair value. Goodwill impairment will now be recognized by the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The amendment should be applied prospectively and is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.	January 1, 2020	The adoption of this new guidance is not expected to have a significant effect on Viad's consolidated financial statements and the Company expects the adoption to reduce the complexity surrounding the analysis of goodwill impairment.
ASU 2017-07, Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	The amendment requires an employer to disaggregate the service cost components from the other components of net benefit cost. The service cost components are required to be presented in operating income and the other components of net benefit cost are required to be presented outside of operating income.	January 1, 2018	The Company currently presents all components of net periodic pension and postretirement benefit costs in cost of services in the consolidated statements of operations. The adoption of this new guidance is not expected to have a significant effect on Viad's consolidated financial statements.
ASU 2017-09, Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting	The amendment provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718.	January 1, 2018	The Company grants share-based awards but rarely has modifications to the awards. The adoption of this new guidance is not expected to have a significant effect on Viad's consolidated financial statements.
Standards Recently Adopted			
ASU 2015-11, Inventory (Topic 330) - Simplifying the Measurement of Inventory	The amendment applies to inventory measures using first-in, first-out or average cost and requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the normal course of	January 1, 2017	The adoption of this new guidance did not have a significant effect on Viad's consolidated financial statements.

business, minus the cost of completion, disposal and transportation. Replacement cost and net realizable value less a normal profit margin will no longer be considered.

ASU 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting	The amendment identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows.	January 1, 2017	The adoption of this new guidance resulted in a decrease of 6% to the effective tax rate during the first quarter of 2017 as compared to 2016, and resulted in a decrease of 1% to the effective tax rate during the nine months ended September 30, 2017 as compared to 2016.
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Note 2. Share-Based Compensation

The following table summarizes share-based compensation expense:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Performance unit incentive plan (“PUP”)	\$3,941	\$1,601	\$7,184	\$2,952
Restricted stock	672	523	2,069	1,597
Restricted stock units	124	86	231	160
Share-based compensation before income tax benefit	4,737	2,210	9,484	4,709
Income tax benefit	(1,752)	(812)	(3,524)	(1,750)
Share-based compensation, net of income tax benefit	\$2,985	\$1,398	\$5,960	\$2,959

Viad did not record any share-based compensation expense through restructuring expense during the three months ended September 30, 2017 or 2016, and recorded zero and \$0.2 million for the nine months ended September 30, 2017 and 2016, respectively.

The following table summarizes the activity of the outstanding share-based compensation awards:

	PUP Awards		Restricted Stock		Restricted Stock Units	
	Weighted-Average		Weighted-Average		Weighted-Average	
	Grant Date		Grant Date		Grant Date	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Balance at December 31, 2016	255,505	\$ 26.11	267,051	\$ 25.96	15,982	\$ 25.58
Granted	73,557	\$ 47.44	64,648	\$ 46.64	2,950	\$ 47.45
Vested	(76,082)	\$ 23.66	(79,104)	\$ 24.01	(6,182)	\$ 25.05
Forfeited	(5,911)	\$ 30.64	(9,807)	\$ 33.84	—	\$ —
Balance at September 30, 2017	247,069	\$ 33.10	242,788	\$ 31.79	12,750	\$ 30.90

Viad Corp Omnibus Incentive Plan

The 2017 Viad Corp Omnibus Incentive Plan (the “2017 Plan”) was approved by Viad stockholders and was effective May 18, 2017. The 2017 Plan replaced the Company’s 2007 Viad Corp Omnibus Stock Plan (the “2007 Plan”). No further awards may be made under the 2007 Plan, although awards previously granted under the 2007 Plan will remain outstanding in accordance with their respective terms. The 2017 Plan has a 10-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. In June 2017, Viad registered 1,750,000 shares of common stock issuable under the 2017 Plan. As of September 30, 2017, there were 1,746,927 shares available for future grant under the 2017 Plan.

PUP Awards

In February 2016, the PUP Plan was amended to provide that PUP awards earned under the 2007 Plan may be payable in the form of cash or in shares of Viad common stock (or a combination of both). Previously, payouts could only be made in cash. The vesting of shares is based upon achievement of certain performance-based criteria. The performance period of the shares is three years.

During the nine months ended September 30, 2017, Viad granted \$3.5 million of PUP awards of which \$1.4 million are payable in shares. As of September 30, 2017 and December 31, 2016, Viad had recorded liabilities of \$10.3 million and \$7.6 million, respectively, related to PUP awards. In March 2017, the PUP awards granted in 2014 vested and cash payouts of \$3.7 million were distributed. In March 2016, the PUP awards granted in 2013 vested and cash payouts of \$0.2 million were distributed.

Restricted Stock

As of September 30, 2017, the unamortized cost of all outstanding restricted stock awards was \$3.1 million, which Viad expects to recognize in the consolidated financial statements over a weighted-average period of approximately 1.2 years. During the nine months ended September 30, 2017 and 2016, the Company repurchased 26,916 shares for \$1.3 million and 24,432 shares for \$0.7 million, respectively, related to tax withholding requirements on vested share-based awards.

Restricted Stock Units

As of both September 30, 2017 and December 31, 2016, Viad had aggregate liabilities recorded of \$0.4 million related to restricted stock units. In February 2017, portions of the 2012 and 2014 restricted stock units vested and cash payouts of \$0.3 million were distributed. In February 2016, portions of the 2011, 2012, and 2013 restricted stock units vested and cash payouts of \$0.2 million were distributed.

Stock Options

During the three and nine months ended September 30, 2017, there was no stock option activity. As of both September 30, 2017 and December 31, 2016, there were 63,773 stock options outstanding and exercisable with a weighted-average exercise price of \$16.62. As of September 30, 2017, there were no unrecognized costs related to non-vested stock option awards.

Note 3. Acquisition of Businesses

FlyOver Canada

On December 29, 2016, the Company acquired the assets and operations of FlyOver Canada, a recreational attraction that provides a virtual flight ride experience with a combination of motion seating, spectacular media, and visual effects including wind, scents, and mist. The purchase price was \$68.8 million Canadian dollars (approximately \$50.9 million U.S. dollars) in cash, subject to certain adjustments.

The following table summarizes the allocation of the aggregate purchase price paid and the amounts of assets acquired and liabilities assumed based on the estimated fair value as of the acquisition date. The allocation of the purchase price was completed as of March 31, 2017.

(in thousands)	
Purchase price paid as:	
Cash	\$50,920
Cash acquired	(6)
Purchase price, net of cash acquired	50,914
Fair value of net assets acquired:	
Inventories	\$11
Prepaid expenses	37
Property and equipment	10,867
Intangible assets	6,028
Total assets acquired	16,943
Accrued liabilities	118
Total liabilities assumed	118
Total fair value of net assets acquired	16,825
Excess purchase price over fair value of net assets acquired ("goodwill")	\$34,089

Under the acquisition method of accounting, the purchase price as shown in the table above is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over the fair value of net assets acquired was recorded as goodwill. Goodwill of FlyOver Canada is included in the Pursuit business group and is a separate reporting unit. The primary factor that contributed to the

purchase price resulting in the recognition of goodwill relates to future growth opportunities and the expansion of the FlyOver concept. Goodwill is expected to be deductible for tax purposes pursuant to Canadian tax regulations. The estimated values of current assets and liabilities were based upon their historical costs on the date of acquisition due to their short-term nature. Transaction costs associated with the acquisition of FlyOver Canada were \$0.1 million in 2017 and \$0.5 million in 2016 and are included in cost of services in Viad's condensed consolidated statements of operations.

Identified intangible assets acquired in the FlyOver Canada acquisition totaled \$6.0 million and consisted of trade names of \$3.7 million, customer relationships of \$1.6 million, and non-compete agreements of \$0.7 million. The weighted-average amortization period related to the intangible assets is 9.4 years.

The results of operations of FlyOver Canada have been included in Viad's condensed consolidated financial statements from the date of acquisition. During the three and nine months ended September 30, 2017, revenue related to FlyOver Canada was \$4.2 million and \$8.0 million, respectively, and operating income was \$2.2 million and \$2.5 million, respectively.

Other Acquisitions

In March 2017, the Company completed the acquisition of the Poken event engagement technology for total cash consideration of \$1.7 million, subject to certain adjustments. These assets have been included in Viad's condensed consolidated financial statements from the date of acquisition.

Supplementary pro forma financial information

The following table summarizes the unaudited pro forma results of operations attributable to Viad, assuming the 2016 acquisitions of CATC Alaska Tourism Corporation ("CATC") (acquired March 2016), the business of ON Event Services, LLC ("ON Services") (acquired August 2016), and FlyOver Canada (acquired December 2016) had been completed on January 1, 2016:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
(in thousands, except per share data)		
Revenue	\$ 389,877	\$ 991,818
Depreciation and amortization	\$ 14,427	\$ 39,565
Income from continuing operations	\$ 35,047	\$ 47,734
Net income attributable to Viad	\$ 33,834	\$ 46,198
Diluted income per share	\$ 1.67	\$ 2.28
Basic income per share	\$ 1.67	\$ 2.28

Note 4. Inventories

The components of inventories consisted of the following:

	September 30, 2017	December 31, 2016
(in thousands)		
Raw materials	\$ 18,455	\$ 16,846
Work in process	21,298	14,574
Inventories	\$ 39,753	\$ 31,420

Note 5. Other Current Assets

Other current assets consisted of the following:

September 30, December 31,

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(in thousands)	2017	2016
Prepaid vendor payments	\$ 6,407	\$ 3,633
Income tax receivable	4,282	3,614
Prepaid software maintenance	3,435	2,804
Prepaid insurance	3,030	2,479
Prepaid taxes	1,038	850
Prepaid rent	769	327
Prepaid other	3,273	731
Other	1,739	4,011
Other current assets	\$ 23,973	\$ 18,449

Note 6. Property and Equipment

Property and equipment consisted of the following:

(in thousands)	September 30, 2017	December 31, 2016
Land and land interests	\$ 32,599	\$ 31,670
Buildings and leasehold improvements	214,844	185,987
Equipment and other	347,461	326,868
Gross property and equipment	594,904	544,525
Accumulated depreciation	(299,147)	(264,667)
Property and equipment, net	\$ 295,757	\$ 279,858

Depreciation expense was \$12.5 million and \$10.0 million for the three months ended September 30, 2017 and 2016, respectively, and \$32.9 million and \$25.1 million for the nine months ended September 30, 2017 and 2016, respectively.

Non-cash increases to property and equipment related to assets acquired under capital leases were \$1.1 million and \$1.0 million for the nine months ended September 30, 2017 and 2016, respectively. Non-cash increases to property and equipment purchases in accounts payable and accrued liabilities were \$0.8 million and \$5.6 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 7. Other Investments and Assets

Other investments and assets consisted of the following:

(in thousands)	September 30, 2017	December 31, 2016
Cash surrender value of life insurance	\$ 23,167	\$ 23,197
Self-insured liability receivable	10,463	10,463
Workers' compensation insurance security deposits	3,550	4,050
Other mutual funds	2,560	2,062
Other	7,005	4,525
Other investments and assets	\$ 46,745	\$ 44,297

Note 8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill were as follows:

(in thousands)	GES			Total
	GES U.S.	International	Pursuit	
Balance at December 31, 2016	\$ 148,277	\$ 34,460	\$ 71,285	\$ 254,022
Business acquisitions	—	1,060	—	1,060
Foreign currency translation adjustments	—	3,084	5,753	8,837
Balance at September 30, 2017	\$ 148,277	\$ 38,604	\$ 77,038	\$ 263,919

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Other intangible assets consisted of the following:

(in thousands)	September 30, 2017			December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:						
Customer contracts and relationships	\$68,739	\$ (21,505)	\$ 47,234	\$67,762	\$ (14,345)	\$ 53,417
Operating contracts and licenses	10,038	(1,083)	8,955	9,315	(652)	8,663
Tradenames	8,665	(2,613)	6,052	8,324	(1,440)	6,884
Non-compete agreements	5,358	(2,682)	2,676	5,190	(1,369)	3,821
Other	896	(601)	295	886	(458)	428
Total amortized intangible assets	93,696	(28,484)	65,212	91,477	(18,264)	73,213
Unamortized intangible assets:						
Business licenses	460	—	460	460	—	460
Other intangible assets	\$94,156	\$ (28,484)	\$ 65,672	\$91,937	\$ (18,264)	\$ 73,673

Intangible asset amortization expense was \$3.3 million and \$2.7 million for the three months ended September 30, 2017 and 2016, respectively, and \$9.6 million and \$6.1 million for the nine months ended September 30, 2017 and 2016, respectively. The weighted-average amortization period of customer contracts and relationships is approximately 8.8 years, operating contracts and licenses is approximately 26.5 years, tradenames is approximately 7.2 years, non-compete agreements is approximately 2.5 years, and other amortizable intangible assets is approximately 2.6 years. The estimated future amortization expense related to amortized intangible assets held at September 30, 2017 is as follows:

(in thousands)	
Year ending December 31,	
Remainder of 2017	\$2,812
2018	11,014
2019	9,946
2020	8,446
2021	7,450
Thereafter	25,544
Total	\$65,212

Note 9. Other Current Liabilities

Other current liabilities consisted of the following:

(in thousands)	September 30, 2017	December 31, 2016
Continuing operations:		
Accrued income tax payable	\$ 16,673	\$ 758
Accrued employee benefit costs	5,935	2,624
Self-insured liability accrual	5,690	5,941
Commissions payable	3,777	639
Accrued sales and use taxes	2,623	4,279
Accrued dividends	2,116	2,119
Current portion of pension liability	1,793	1,963
Deferred rent	1,656	1,535
Accrued rebates	1,061	1,078
Accrued professional fees	924	794
Accrued restructuring	750	1,924
Other taxes	3,315	4,210
Other	4,909	1,774
Total continuing operations	51,222	29,638
Discontinued operations:		
Environmental remediation liabilities	661	492
Self-insured liability accrual	332	162
Other	103	98
Total discontinued operations	1,096	752
Total other current liabilities	\$ 52,318	\$ 30,390

Note 10. Other Deferred Items and Liabilities

Other deferred items and liabilities consisted of the following:

(in thousands)	September 30, 2017	December 31, 2016
Continuing operations:		
Self-insured liability	\$ 14,644	\$ 12,981
Self-insured excess liability	10,463	10,463
Accrued compensation	9,402	8,514
Deferred rent	4,076	5,271
Foreign deferred tax liability	2,264	2,264
Accrued restructuring	1,903	1,858
Other	2,655	1,300

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Total continuing operations	45,407	42,651
Discontinued operations:		
Self-insured liability	3,011	3,748
Environmental remediation liabilities	1,716	3,091
Accrued income taxes	—	1,045
Other	126	199
Total discontinued operations	4,853	8,083
Total other deferred items and liabilities	\$ 50,260	\$ 50,734

Note 11. Debt and Capital Lease Obligations

The components of long-term debt and capital lease obligations consisted of the following:

(in thousands, except interest rates)	September 30, 2017	December 31, 2016
Revolving credit facility and term loan 3.3% and 2.6% weighted-average interest rate at		
September 30, 2017 and December 31, 2016, respectively, due through 2019 ⁽¹⁾	\$ 184,688	\$ 212,750
Brewster Inc. revolving credit facility 2.7% weighted-average interest rate at		
December 31, 2016 ⁽¹⁾	—	36,456
Less unamortized debt issuance costs	(1,071)	(1,464)
Total debt	183,617	247,742
Capital lease obligations 4.2% and 4.9% weighted-average interest rate at September 30,		
2017 and December 31, 2016, respectively, due through 2021	1,584	1,469
Total debt and capital lease obligations	185,201	249,211
Current portion ⁽²⁾	(124,574)	(174,968)
Long-term debt and capital lease obligations	\$ 60,627	\$ 74,243

⁽¹⁾Represents the weighted-average interest rate in effect at the respective periods for the revolving credit facilities and term loan borrowings, including any applicable margin. The interest rates do not include amortization of debt issuance costs or commitment fees.

⁽²⁾Borrowings under the revolving credit facilities are classified as current because all borrowed amounts are due within one year.

Effective December 22, 2014, Viad entered into a \$300 million Amended and Restated Credit Agreement (the “Credit Agreement”). The Credit Agreement provides for a senior credit facility in the aggregate amount of \$300 million, which consists of a \$175 million revolving credit facility (the “Revolving Credit Facility”) and a \$125 million term loan (the “Term Loan”). Loans under the Credit Agreement have a maturity date of December 22, 2019. Proceeds from the loans made under the Credit Agreement were used to refinance certain outstanding debt of the Company and will be used for the Company’s general corporate purposes in the ordinary course of its business. Under the Credit Agreement, the Revolving Credit Facility and/or the Term Loan may be increased up to an additional \$100 million under certain circumstances. If such circumstances are met, the Company may obtain the additional borrowings under the Revolving Credit Facility, the Term Loan, or a combination of the two. The Revolving Credit Facility has a \$40 million sublimit for letters of credit. Borrowings and letters of credit can be denominated in U.S. dollars, Euros, Canadian dollars, or British pounds. Viad’s lenders under the Credit Agreement have a first perfected security interest in all of the personal property of Viad, GES, GES Event Intelligence Services, Inc., CATC, and ON Services including 65 percent of the capital stock of top-tier foreign subsidiaries.

Effective February 24, 2016, Viad executed an amendment (the “Credit Agreement Amendment”) to the Credit Agreement. The Credit Agreement Amendment modified the terms of the financial covenants and the negative covenants related to acquisitions, restricted payments, and indebtedness. The overall maximum leverage ratio and minimum fixed charge coverage ratio are 3.50 to 1.00 and 1.75 to 1.00, respectively, and will remain at those levels for the entire remaining term of the Credit Agreement. Acquisitions in substantially the same or related lines of business are permitted under the Credit Agreement Amendment, as long as the pro forma leverage ratio is less than or

equal to 3.00 to 1.00. Viad can make dividends, distributions, and repurchases of its common stock up to \$20 million per calendar year. Stock dividends, distributions, and repurchases above the \$20 million limit are not subject to a liquidity covenant, and are permitted as long as the Company's pro forma leverage ratio is less than or equal to 2.50 to 1.00 and there is no default or unmatured default, as defined in the Credit Agreement. Unsecured debt is allowed as long as the Company's pro forma leverage ratio is less than or equal to 3.00 to 1.00. Significant other covenants under the Credit Agreement that remain unchanged by the Credit Agreement Amendment include limitations on investments, sales/leases of assets, consolidations or mergers, and liens on property. As of September 30, 2017, the fixed charge coverage ratio was 3.18 to 1.00, the leverage ratio was 1.26 to 1.00, and Viad was in compliance with all covenants under the Credit Agreement.

Effective December 28, 2016, Brewster Inc., part of Pursuit, entered into a credit agreement (the “Brewster Credit Agreement”) with a \$38 million revolving credit facility (the “Brewster Revolving Credit Facility”). The Brewster Credit Agreement was used in connection with the Company’s acquisition of FlyOver Canada and has a maturity date of December 28, 2017. The Company intends to amend and extend the Brewster Revolving Credit Facility for one year. Additional loan proceeds will be used for potential future acquisitions in Canada and other general corporate purposes of Brewster Inc. Brewster Inc.’s lender has a first perfected security interest in all of the personal property of Brewster Inc. under the Brewster Revolving Credit Facility and a guaranty from Brewster Travel Canada Inc., the immediate parent of Brewster Inc., (secured by its present and future personal property), Viad, and all current or future subsidiaries of Viad that are required to be guarantors under Viad’s Credit Agreement.

As of September 30, 2017, Viad’s total debt and capital lease obligations were \$185.2 million, consisting of outstanding borrowings under the Term Loan of \$79.7 million, the Revolving Credit Facility of \$105.0 million, and capital lease obligations of \$1.6 million, offset in part by unamortized debt issuance costs of \$1.1 million. As of September 30, 2017, Viad had \$68.7 million of capacity remaining under the Revolving Credit Facility, reflecting borrowings of \$105.0 million and \$1.3 million in outstanding letters of credit. As of September 30, 2017, Brewster Inc. had \$38.0 million of capacity remaining under the Brewster Revolving Credit Facility.

Borrowings under the Revolving Credit Facility (of which GES, GES Event Intelligence Services, Inc., CATC, and ON Services are guarantors) are indexed to the prime rate or the London Interbank Offered Rate, plus appropriate spreads tied to Viad’s leverage ratio. Commitment fees and letters of credit fees are also tied to Viad’s leverage ratio. The fees on the unused portion of the Credit Facility are currently 0.35 percent annually.

As of September 30, 2017, Viad, on behalf of its subsidiaries, had certain obligations under guarantees to third parties. These guarantees are not subject to liability recognition in the condensed consolidated financial statements and relate to leased facilities entered into by Viad’s subsidiary operations. The Company would generally be required to make payments to the respective third parties under these guarantees in the event that the related subsidiary could not meet its own payment obligations. The maximum potential amount of future payments that Viad would be required to make under all guarantees existing as of September 30, 2017 would be \$7.5 million. These guarantees relate to facilities leased by the Company through September 2021. There are no recourse provisions that would enable Viad to recover from third parties any payments made under the guarantees. Furthermore, there are no collateral or similar arrangements whereby Viad could recover payments.

The estimated fair value of total debt was \$179.8 million and \$252.8 million as of September 30, 2017 and December 31, 2016, respectively. The fair value of debt was estimated by discounting the future cash flows using rates currently available for debt of similar terms and maturity.

Cash paid for interest on debt was \$5.5 million and \$3.7 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 12. Fair Value Measurements

The fair value of an asset or liability is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value guidance requires an entity to maximize the use of quoted prices and other observable inputs and minimize the use of unobservable inputs when measuring fair value, and also establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of fair value.

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Viad measures its money market mutual funds and certain other mutual fund investments at fair value on a recurring basis using Level 1 inputs. The fair value information related to these assets is summarized in the following tables:

(in thousands)	September 30, 2017	Fair Value Measurements at Reporting Date Using Significant Quoted Prices in Other Significant Active Markets		
		(Level 1)	(Level 2) Inputs	(Level 3) Inputs Unobservable
Assets:				
Money market funds ⁽¹⁾	\$ 119	\$ 119	\$ —	\$ —
Other mutual funds ⁽²⁾	2,560	2,560	—	—
Total assets at fair value on a recurring basis	\$ 2,679	\$ 2,679	\$ —	\$ —

(in thousands)	December 31, 2016	Fair Value Measurements at Reporting Date Using Quoted Prices Significant in Other Significant Active Markets		
		(Level 1)	(Level 2) Inputs	(Level 3) Inputs Unobservable
Assets:				
Money market funds ⁽¹⁾	\$ 118	\$ 118	\$ —	\$ —
Other mutual funds ⁽²⁾	2,062	2,062	—	—
Total assets at fair value on a recurring basis	\$ 2,180	\$ 2,180	\$ —	\$ —

⁽¹⁾Money market mutual funds are included in “Cash and cash equivalents” in the condensed consolidated balance sheets. These investments are classified as available-for-sale and were recorded at fair value. There have been no realized gains or losses related to these investments and the Company has not experienced any redemption restrictions with respect to any of the money market mutual funds.

⁽²⁾Other mutual funds are included in “Other investments and assets” in the condensed consolidated balance sheets. These investments are classified as available-for-sale and were recorded at fair value. As of September 30, 2017 and December 31, 2016, there were unrealized gains of \$0.9 million (\$0.6 million after-tax) and \$0.7 million (\$0.4 million after tax), respectively, which were included in “Accumulated other comprehensive income (loss)” (“AOCI”) in the condensed consolidated balance sheets.

The carrying values of cash and cash equivalents, receivables, and accounts payable approximate fair value due to the short-term maturities of these instruments. Refer to Note 11 – Debt and Capital Lease Obligations, for the estimated

fair value of debt obligations.

Note 13. Stockholders' Equity

The following represents a reconciliation of the carrying amounts of stockholders' equity attributable to Viad and the noncontrolling interest for the nine months ended September 30, 2017 and 2016:

	Total Viad		Total
	Stockholders' Equity	Noncontrolling Interest	Stockholders' Equity
(in thousands)			
Balance at December 31, 2016	\$ 357,355	\$ 13,283	\$ 370,638
Net income	79,381	747	80,128
Dividends on common stock (\$0.30 per share)	(6,119)	—	(6,119)
Common stock purchased for treasury	(1,272)	—	(1,272)
Employee benefit plans	5,916	—	5,916
Unrealized foreign currency translation adjustment	18,820	—	18,820
Other changes to AOCI	327		