

VIAD CORP
Form 10-Q
November 10, 2014

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, 2014

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
State or other jurisdiction of
incorporation or organization

36-1169950
(I.R.S. Employer
Identification No.)

1850 North Central Avenue, Suite 1900
Phoenix, Arizona
(Address of principal executive offices)
(602) 207-1000

85004-4565
(Zip Code)

(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 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 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 Smaller reporting company

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 31, 2014, there were 20,069,990 shares of Common Stock (\$1.50 par value) outstanding.

Table of Contents

INDEX

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>1</u>
<u>Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets</u>	<u>1</u>
<u>Consolidated Statements of Operations</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Item 2.</u>	<u>24</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
<u>Item 3.</u>	<u>35</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>35</u>
<u>Item 4.</u>	<u>36</u>
<u>Controls and Procedures</u>	<u>36</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>37</u>
<u>Legal Proceedings</u>	<u>37</u>
<u>Item 1A.</u>	<u>37</u>
<u>Risk Factors</u>	<u>37</u>
<u>Item 2.</u>	<u>37</u>
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>37</u>
<u>Item 3.</u>	<u>37</u>
<u>Defaults Upon Senior Securities</u>	<u>37</u>
<u>Item 4.</u>	<u>37</u>
<u>Mine Safety Disclosures</u>	<u>37</u>
<u>Item 5.</u>	<u>37</u>
<u>Other Information</u>	<u>37</u>
<u>Item 6.</u>	<u>38</u>
<u>Exhibits</u>	<u>38</u>
<u>SIGNATURES</u>	<u>38</u>

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VIAD CORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)	As of September 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$56,918	\$45,821
Accounts receivable, net of allowance for doubtful accounts of \$1,018 and \$877, respectively	90,675	61,197
Inventories	36,852	27,993
Deferred income taxes	19,737	20,577
Other current assets	17,051	17,142
Total current assets	221,233	172,730
Property and equipment, net	198,583	190,330
Other investments and assets	34,743	35,026
Deferred income taxes	33,202	29,823
Goodwill	140,661	129,543
Other intangible assets, net	13,547	4,480
Total Assets	\$641,969	\$561,932
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$68,746	\$40,941
Customer deposits	48,075	29,207
Accrued compensation	20,921	15,113
Other current liabilities	37,752	29,169
Current portion of debt and capital lease obligations	23,375	10,903
Total current liabilities	198,869	125,333
Long-term capital lease obligations	623	765
Pension and postretirement benefits	30,435	30,672
Other deferred items and liabilities	46,341	48,619
Total liabilities	276,268	205,389
Commitments and contingencies		
Stockholders' equity		
Viad stockholders' equity:		
Common stock, \$1.50 par value, 200,000,000 shares authorized, 24,934,981 shares issued	37,402	37,402
Additional capital	583,437	590,862
Retained deficit	(28,525)	(50,393)
Unearned employee benefits and other	18	(21)
Accumulated other comprehensive income (loss):		
Unrealized gain on investments	412	429
Cumulative foreign currency translation adjustments	20,897	30,847
Unrecognized net actuarial loss and prior service credit, net	(11,291)	(11,259)
Common stock in treasury, at cost, 4,869,691 and 4,618,433 shares, respectively	(249,106)	(250,426)

Edgar Filing: VIAD CORP - Form 10-Q

Total Viad stockholders' equity	353,244	347,441
Noncontrolling interest	12,457	9,102
Total stockholders' equity	365,701	356,543
Total Liabilities and Stockholders' Equity	\$641,969	\$561,932
Refer to Notes to Condensed Consolidated Financial Statements.		

1

Table of Contents

VIAD CORP
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenue:				
Exhibition and event services	\$ 188,005	\$ 126,744	\$ 605,274	\$ 538,489
Exhibits and environments	38,657	29,742	125,797	114,571
Travel and recreation services	73,140	63,681	110,763	98,446
Total revenue	299,802	220,167	841,834	751,506
Costs and expenses:				
Costs of services	228,285	174,230	658,502	598,501
Costs of products sold	38,503	31,989	122,821	114,007
Gain on sale of facility and related land	—	(4,775)	) —	(4,775)
Corporate activities	3,468	2,034	7,498	4,007
Interest income	(81)	) (122)	) (200)	) (397)
Interest expense	462	286	1,069	905
Restructuring charges	238	639	1,814	2,132
Goodwill impairment charge	—	2,097	—	2,097
Impairment charges	—	952	884	952
Total costs and expenses	270,875	207,330	792,388	717,429
Income from continuing operations before income taxes	28,927	12,837	49,446	34,077
Income tax expense (benefit)	(2,623)	) 3,567	870	10,143
Income from continuing operations	31,550	9,270	48,576	23,934
Income (loss) from discontinued operations	(979)	) 3,478	13,023	2,664
Net income	30,571	12,748	61,599	26,598
Net income attributable to noncontrolling interest	(951)	) (893)	) (3,355)	) (425)
Net income attributable to Viad	\$ 29,620	\$ 11,855	\$ 58,244	\$ 26,173
Diluted income (loss) per common share:				
Continuing operations attributable to Viad common stockholders	\$ 1.53	\$ 0.44	\$ 2.38	\$ 1.17
Discontinued operations attributable to Viad common stockholders	(0.05)	) 0.14	0.50	0.12
Net income attributable to Viad common stockholders	\$ 1.48	\$ 0.58	\$ 2.88	\$ 1.29
Weighted-average outstanding and potentially dilutive common shares	19,954	20,191	20,174	20,188
Basic income (loss) per common share:				
Continuing operations attributable to Viad common stockholders	\$ 1.53	\$ 0.44	\$ 2.38	\$ 1.17
Discontinued operations attributable to Viad common stockholders	(0.05)	) 0.14	0.50	0.12
Net income attributable to Viad common stockholders	\$ 1.48	\$ 0.58	\$ 2.88	\$ 1.29
Weighted-average outstanding common shares	19,679	19,868	19,832	19,839
Dividends declared per common share	\$ 0.10	\$ 0.10	\$ 1.80	\$ 0.30
Amounts attributable to Viad common stockholders				
Income from continuing operations	\$ 30,756	\$ 8,871	\$ 48,046	\$ 23,840
Income (loss) from discontinued operations	(1,136)	) 2,984	10,198	2,333
Net income	\$ 29,620	\$ 11,855	\$ 58,244	\$ 26,173

Refer to Notes to Condensed Consolidated Financial Statements.

2

Table of Contents

VIAD CORP
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$30,571	\$12,748	\$61,599	\$26,598
Other comprehensive income (loss):				
Unrealized gains (losses) on investments, net of tax ⁽¹⁾	(67	) 62	(17	) 117
Unrealized foreign currency translation adjustments, net of tax ⁽¹⁾	(9,799	) 5,331	(9,950	) (6,092
Amortization of net actuarial gain, net of tax ⁽¹⁾	183	150	438	511
Amortization of prior service credit, net of tax ⁽¹⁾	(252	) (140	) (470	) (420
Comprehensive income	20,636	18,151	51,600	20,714
Comprehensive income attributable to noncontrolling interest	(951	) (893	) (3,355	) (425
Comprehensive income attributable to Viad	\$19,685	\$17,258	\$48,245	\$20,289

⁽¹⁾ The tax effect on other comprehensive income (loss) is not significant.

Refer to Notes to Condensed Consolidated Financial Statements.

Table of Contents

VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Nine Months Ended	
	September 30, 2014	2013
Cash flows from operating activities		
Net income	\$61,599	\$26,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,853	21,303
Deferred income taxes	(1,291)	) 2,669
Income from discontinued operations	(13,023)	) (2,664)
Restructuring charges	1,814	2,132
Impairment charges	884	3,049
Gain on sale of facility and related land	—	(4,775)
Gains on dispositions of property and other assets	(392)	) (223)
Share-based compensation expense	1,562	3,569
Excess tax benefit from share-based compensation arrangements	(41)	) (389)
Other non-cash items, net	7,689	3,603
Change in operating assets and liabilities (excluding the impact of acquisitions):		
Receivables	(29,933)	) (12,173)
Inventories	(7,052)	) (2,161)
Accounts payable	27,301	4,704
Restructuring liabilities	(4,268)	) (3,771)
Accrued compensation	4,053	(8,768)
Customer deposits	18,267	(5,806)
Income taxes payable	4,273	2,115
Other assets and liabilities, net	(11,283)	) (1,679)
Net cash provided by operating activities	82,012	27,333
Cash flows from investing activities		
Proceeds from possessory interest and personal property—discontinued operations	28,000	—
Proceeds from dispositions of property and other assets	502	422
Capital expenditures	(21,898)	) (26,927)
Acquisition of businesses, net of cash acquired	(40,775)	) (647)
Proceeds from sale of facility and related land	—	12,696
Proceeds from sale of land - discontinued operations	—	1,645
Net cash used in investing activities	(34,171)	) (12,811)
Cash flows from financing activities		
Dividends paid on common stock	(36,374)	) (6,095)
Payments on debt and capital lease obligations	(56,196)	) (1,027)
Proceeds from borrowings	68,000	—
Common stock purchased for treasury	(11,631)	) (1,294)
Excess tax benefit from share-based compensation arrangements	41	389
Proceeds from exercise of stock options	1,155	540
Net cash used in financing activities	(35,005)	) (7,487)
Effect of exchange rate changes on cash and cash equivalents	(1,739)	) (1,084)
Net change in cash and cash equivalents	11,097	5,951
Cash and cash equivalents, beginning of year	45,821	114,171
Cash and cash equivalents, end of period	\$56,918	\$120,122

Supplemental disclosure of cash flow information

Cash paid for income taxes	\$6,409	\$4,299
Cash paid for interest	\$880	\$510
Property and equipment acquired under capital leases	\$541	\$462
Property and equipment purchases in accounts payable and accrued liabilities	\$230	\$4,441
Refer to Notes to Condensed Consolidated Financial Statements.		

Table of Contents

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”) 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. The condensed consolidated financial statements of Viad 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.

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 nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014.

For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2013 included in the Company’s Form 10-K, filed with the Securities and Exchange Commission on March 7, 2014.

Nature of Business

Viad’s reportable segments consist of Marketing & Events U.S., Marketing & Events International (collectively, “Marketing & Events Group”) and the Travel & Recreation Group.

Marketing & Events 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 leading consumer brands, movie studios, shopping malls and other clients, as well as for museums and other venues.

On September 16, 2014, the Company acquired Blitz Communications Group Limited and its affiliates (collectively, “Blitz”) for £15 million (approximately \$24.4 million) in cash, subject to certain adjustments. Blitz, located in the United Kingdom, is a leading audio-visual staging and creative services provider for the live events industry in the United Kingdom and continental Europe. For additional information, refer to Note 3, Acquisition of Businesses.

On October 7, 2014, the Company acquired onPeak LLC and Travel Planners, Inc. for a purchase price of \$43.1 million and \$33.9 million, respectively, in cash, subject to certain adjustments. For additional information, refer to Note 21, Subsequent Events.

Travel & Recreation Group

The Travel & Recreation Group consists of Brewster Inc. (“Brewster”), Glacier Park, Inc. (“Glacier Park”) and Alaskan Park Properties, Inc. (“Alaska Denali Travel”). Brewster provides tourism products and experiential 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, Glacier Skywalk (opened May 2014), Banff Lake Cruise, motorcoach services, charter and sightseeing services, inbound package tour operations and hotel operations.

During 2013, Glacier Park, an 80 percent owned subsidiary of Viad, operated five lodges, three motor inns and one four-season resort hotel and provided 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’s concession contract with the U.S. National Park Service (the “Park Service”) for Glacier National Park expired on December 31, 2013. The ongoing operations of Glacier Park as of January 1, 2014 include: Glacier Park Lodge in East Glacier, Montana; Grouse Mountain Lodge in Whitefish, Montana; St. Mary Lodge in St. Mary, Montana; Motel Lake McDonald, an in-holding within Glacier National Park; and the Prince of Wales Hotel in Waterton Lakes National Park. Glacier Park also continues to operate the food and beverage operations and package tour and transportation services with respect to these properties and the retail shops located near Glacier National

Park. With regard to Glacier Park's concession operations within Glacier National Park, refer to Note 20, Discontinued Operations.

5

Table of Contents

On July 1, 2014, the Company acquired the West Glacier Motel & Cabins, the Apgar Village Lodge and related land, food and beverage services and retail operations (collectively, “West Glacier”). The West Glacier Motel & Cabins is a 32-room property situated on approximately 200 acres at the west entrance of Glacier National Park, and its full-service amenities include a restaurant, grocery store, gift shops, a gas station and employee housing. The Apgar Village Lodge is a 48-room property situated on a 3.8 acre private in-holding inside Glacier National Park with overnight accommodations, a gift shop and employee housing. The purchase price was \$16.5 million in cash with a working capital adjustment of \$0.3 million, subject to certain adjustments. For additional information, refer to Note 3, Acquisition of Businesses.

Alaska Denali Travel operates the Denali Backcountry Lodge and Denali Cabins. In addition to lodging, Alaska Denali Travel also provides food and beverage operations and package tour and transportation services in and around Denali National Park and Preserve.

Impact of Recent Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The new guidance changes the criteria for reporting discontinued operations while enhancing disclosures. Under the standard, only disposals representing a strategic shift in operations, such as a disposal of a major geographic area, a major line of business or a major equity method investment, may be presented as discontinued operations. This guidance is effective for interim and annual periods beginning after December 15, 2014. The Company has not yet determined if the adoption of this new guidance will have a material impact on Viad’s financial condition or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). 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 guidance is effective for fiscal years beginning after December 15, 2016, and early adoption is not permitted. The Company has not yet determined if the adoption of this new guidance will have a material impact on its financial position or results of operations.

In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period. The new guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update is effective for our fiscal year beginning January 1, 2016 and early adoption is permitted. The Company has not yet determined if the adoption of this new guidance will have a material impact on its financial position or results of operations.

Note 2. Share-Based Compensation

The following table summarizes share-based compensation expense:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Restricted stock	\$653	\$802	\$2,066	\$2,522
Performance unit incentive plan (“PUP”)	(600	) 347	(505	) 871
Restricted stock units	6	3	1	104
Stock options	—	50	—	72
Share-based compensation before income tax benefit	59	1,202	1,562	3,569
Income tax benefit	(17	) (445	) (587	) (1,326
Share-based compensation, net of income tax benefit	\$42	\$757	\$975	\$2,243

For the three months ended September 30, 2014, Viad recorded share-based compensation expense of \$0.2 million through restructuring expense. For the nine months ended September 30, 2014, Viad recorded a reversal of

share-based compensation expense of \$0.1 million through restructuring expense.

On January 24, 2014, Viad announced that its Board of Directors declared a special cash dividend of \$1.50 per share, or \$30.5 million in the aggregate, which was paid on February 14, 2014. In accordance with the mandatory provisions of the 2007

Table of Contents

Viad Corp Omnibus Incentive Plan (the “2007 Plan”) and the 1997 Viad Corp Omnibus Incentive Plan, the Human Resources Committee of Viad’s Board of Directors approved equitable adjustments to the outstanding long-term incentive awards of stock options and PUP awards issued pursuant to those plans in order to prevent the special dividend from diluting the rights of participants under those plans. The equitable adjustment to the outstanding stock options reduced the exercise price and increased the number of shares of common stock underlying such options. The equitable adjustment to the PUP awards reflects the effect of the special dividend, but will be paid only if certain performance goals are met at the end of the 3-year performance period.

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

	Restricted Stock		PUP Awards		Restricted Stock Units	
	Shares	Weighted-Average Grant Date Fair Value	Units	Weighted-Average Grant Date Fair Value	Units	Weighted-Average Grant Date Fair Value
Balance, December 31, 2013	430,899	\$ 22.78	299,768	\$ 23.46	28,560	\$ 22.91
Granted	89,800	23.81	123,300	23.71	6,700	24.95
Vested	(137,187)	22.59	(94,600)	23.01	(9,890)	23.45
Forfeited	(17,840)	22.13	(7,800)	24.93	(500)	27.32
Balance, September 30, 2014	365,672	23.14				