

VIAD CORP
Form 10-Q
August 07, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2009, 20,585,843 shares of common stock (\$1.50 par value) were outstanding.

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VIAD CORP
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2009	December 31, 2008
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 109,918	\$ 148,040
Accounts receivable, net of allowance for doubtful accounts of \$1,875 and \$2,556, respectively	73,065	53,541
Inventories	40,348	52,311
Deferred income taxes	17,883	19,695
Other current assets	14,468	14,453
Total current assets	255,682	288,040
Property and equipment, net	173,512	165,415
Other investments and assets	26,568	26,560
Deferred income taxes	14,847	18,996
Goodwill	217,984	212,461
Other intangible assets, net	17,601	17,932
Total Assets	\$ 706,194	\$ 729,404
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 52,989	\$ 57,702
Other current liabilities	74,398	109,059
Current portion of long-term debt and capital lease obligations	3,002	2,556
Total current liabilities	130,389	169,317
Long-term debt and capital lease obligations	10,915	10,087
Pension and postretirement benefits	25,222	25,121
Other deferred items and liabilities	56,953	57,790
Total liabilities	223,479	262,315
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Viad Corp stockholders' equity:		
Common stock, \$1.50 par value, 200,000,000 shares authorized, 24,934,981 shares issued	37,402	37,402
Additional capital	602,322	623,781
Retained earnings	96,834	91,558
Unearned employee benefits and other	(7,430)	(7,881)

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Accumulated other comprehensive income (loss):		
Unrealized loss on investments	(1)	(62)
Cumulative foreign currency translation adjustments	16,657	6,233
Unrecognized net actuarial loss and prior service credit	(3,958)	(3,673)
Common stock in treasury, at cost, 4,357,423 and 4,655,956 shares, respectively	(265,418)	(286,803)
Total Viad Corp stockholders' equity	476,408	460,555
Noncontrolling interest	6,307	6,534
Total stockholders' equity	482,715	467,089
Total Liabilities and Stockholders' Equity	\$ 706,194	\$ 729,404

See Notes to Condensed Consolidated Financial Statements.

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VIAD CORP
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended June		Six months ended June 30,	
	2009	30, 2008	2009	2008
(in thousands, except per share data)				
Revenues:				
Convention and event services	\$ 154,721	\$ 187,691	\$ 351,617	\$ 456,572
Exhibits and environments	40,638	65,693	79,804	126,405
Travel and recreation services	18,206	23,828	23,093	29,680
Total revenues	213,565	277,212	454,514	612,657
Costs and expenses:				
Costs of services	161,984	194,305	351,267	436,092
Costs of products sold	41,773	61,828	86,772	126,906
Corporate activities	703	2,219	2,206	4,653
Interest income	(132)	(653)	(393)	(1,753)
Interest expense	425	415	845	878
Restructuring charges	198		2,930	
Total costs and expenses	204,951	258,114	443,627	566,776
Income from continuing operations before income taxes				
	8,614	19,098	10,887	45,881
Income tax expense	3,311	6,107	4,212	16,297
Income from continuing operations	5,303	12,991	6,675	29,584
Loss from discontinued operations		(210)		(210)
Net income	5,303	12,781	6,675	29,374
Net loss attributable to noncontrolling interest	96	92	227	244
Net income attributable to Viad	\$ 5,399	\$ 12,873	\$ 6,902	\$ 29,618
Diluted income per common share				
Income from continuing operations attributable to Viad common stockholders	\$ 0.26	\$ 0.63	\$ 0.34	\$ 1.44
Loss from discontinued operations attributable to Viad common stockholders		(0.01)		(0.01)
Net income attributable to Viad common stockholders	\$ 0.26	\$ 0.62	\$ 0.34	\$ 1.43

Weighted-average outstanding and potentially dilutive common shares	20,170	20,666	20,167	20,678
Basic income per common share				
Income from continuing operations attributable to Viad common stockholders	\$ 0.26	\$ 0.63	\$ 0.34	\$ 1.44
Loss from discontinued operations attributable to Viad common stockholders		(0.01)		(0.01)
Net income attributable to Viad common stockholders	\$ 0.26	\$ 0.62	\$ 0.34	\$ 1.43
Weighted-average outstanding common shares	19,977	20,268	19,935	20,232
Dividends declared per common share	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.08
Amounts attributable to Viad common stockholders				
Income from continuing operations	\$ 5,399	\$ 13,083	\$ 6,902	\$ 29,828
Loss from discontinued operations		(210)		(210)
Net income	\$ 5,399	\$ 12,873	\$ 6,902	\$ 29,618

See Notes to Condensed Consolidated Financial Statements.

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VIAD CORP
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended June		Six months ended June 30,	
	2009	30, 2008	2009	2008
	(in thousands)			
Net income	\$ 5,303	\$ 12,781	\$ 6,675	\$ 29,374
Other comprehensive income (loss):				
Unrealized gains (losses) on investments:				
Holding gains (losses) arising during the period, net of tax	118	(14)	61	(144)
Unrealized foreign currency translation adjustments	15,504	(839)	10,424	(2,942)
Pension and postretirement benefit plans:				
Amortization of net actuarial loss, net of tax	22	72	95	143
Amortization of prior service credit, net of tax	(190)	(205)	(380)	(411)
Total other comprehensive income (loss)	15,454	(986)	10,200	(3,354)
Comprehensive income	20,757	11,795	16,875	26,020
Comprehensive loss attributable to noncontrolling interest	96	92	227	244
Comprehensive income attributable to Viad	\$ 20,853	\$ 11,887	\$ 17,102	\$ 26,264

See Notes to Condensed Consolidated Financial Statements.

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VIAD CORP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30,	
	2009	2008
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 6,675	\$ 29,374
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	13,535	13,844
Deferred income taxes	5,739	4,747
Loss from discontinued operations		210
Restructuring charges	2,930	
Gains on dispositions of property and other assets	(14)	(89)
Share-based compensation expense	1,215	3,868
Tax benefit from share-based compensation arrangements		338
Excess tax benefit from share-based compensation arrangements		(287)
Other non-cash items, net	2,171	2,466
Change in operating assets and liabilities:		
Receivables	(20,213)	(34,191)
Inventories	11,963	(2,987)
Accounts payable	(3,758)	4,110
Restructuring liabilities	(2,668)	(963)
Accrued compensation	(15,605)	(11,422)
Customer deposits	(10,699)	(1,654)
Other assets and liabilities, net	(11,915)	(14,131)
Net cash used in operating activities	(20,644)	(6,767)
Cash flows from investing activities:		
Capital expenditures	(14,780)	(25,516)
Acquisition of business, net of cash acquired		(23,334)
Proceeds from sale of short-term investments		3,980
Proceeds from dispositions of property and other assets	28	520
Net cash used in investing activities	(14,752)	(44,350)
Cash flows from financing activities:		
Payments on debt and capital lease obligations	(1,606)	(1,325)
Dividends paid on common stock	(1,648)	(1,657)
Common stock purchased for treasury	(1,162)	(1,632)
Excess tax benefit from share-based compensation arrangements		287
Proceeds from exercise of stock options		1,621
Net cash used in financing activities	(4,416)	(2,706)
Effect of exchange rate changes on cash and cash equivalents	1,690	315

Net decrease in cash and cash equivalents	(38,122)	(53,508)
Cash and cash equivalents, beginning of year	148,040	165,069
Cash and cash equivalents, end of period	\$ 109,918	\$ 111,561
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income taxes	\$ 6,727	\$ 13,179
Interest	\$ 475	\$ 697
Equipment acquired under capital leases	\$ 2,776	\$ 606

See Notes to Condensed Consolidated Financial Statements.

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VIAD CORP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Preparation and Principles of Consolidation

The accompanying unaudited, condensed consolidated financial statements of Viad Corp (Viad or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. Viad has performed an evaluation of subsequent events through August 6, 2009, and the financial statements were issued on August 7, 2009.

For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2008, included in the Company s Form 10-K (File No. 001-11015), filed with the Securities and Exchange Commission on February 27, 2009.

The condensed consolidated financial statements include the accounts of Viad and all of its subsidiaries. All significant intercompany account balances and transactions between Viad and its subsidiaries have been eliminated in consolidation. Viad s reporting segments consist of GES Exposition Services, Inc. (GES), Experiential Marketing Services and Travel & Recreation Group. The Experiential Marketing Services segment consists of Exhibitgroup/Giltspur and The Becker Group, Ltd. (Becker Group). The Travel & Recreation Group segment consists of Brewster Inc. (Brewster) and Glacier Park, Inc. (Glacier Park). Glacier Park is an 80 percent owned subsidiary of Viad. In July 2009, Viad announced a strategic reorganization to align its brands and operations into two business units: the Marketing & Events Group (which includes Viad s GES and Experiential Marketing Services segments) and the Travel & Recreation Group (which includes Brewster and Glacier Park).

Note 2. Share-Based Compensation

Viad grants share-based compensation awards to officers, directors and certain key employees pursuant to the 2007 Viad Corp Omnibus Incentive Plan (the 2007 Plan). The 2007 Plan has a ten-year life and provides for the following types of awards: (a) incentive and non-qualified stock options; (b) restricted stock and restricted stock units; (c) performance units or performance shares; (d) stock appreciation rights; (e) cash-based awards and (f) certain other stock-based awards. The number of shares of common stock available for grant under the 2007 Plan is limited to 1,700,000 shares plus shares awarded under the 1997 Viad Corp Omnibus Incentive Plan (which terminated in May 2007) that subsequently cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent the shares are exercised for, or settled in, vested and non-forfeited shares) up to an aggregate maximum of 1,500,000 shares. Viad issues shares related to its share-based compensation awards from shares held in treasury.

Total share-based compensation expense recognized in the consolidated financial statements during the three months ended June 30, 2009 and 2008 was \$982,000 and \$1.2 million, respectively, and \$1.2 million and \$3.9 million during the six months ended June 30, 2009 and 2008, respectively. The total tax benefits related to such costs were \$359,000 and \$436,000 for the three months ended June 30, 2009 and 2008, respectively, and \$420,000 and \$1.5 million for the six months ended June 30, 2009 and 2008, respectively. No share-based compensation costs were capitalized during the six months ended June 30, 2009 or 2008.

Restricted stock and performance-based restricted stock (PBRs) awards were granted during the six months ended June 30, 2009 and 2008. Restricted stock awards vest between three and five years from the date of grant and share-based compensation expense for all awards granted prior to 2009 is recognized using the straight-line method over the requisite service period. Shares of restricted stock granted in 2009 with a five year vesting period are subject to a graded vesting schedule whereby 40 percent of the shares vest on the third anniversary of the grant and the remaining shares vest in 30 percent increments over the subsequent two anniversary dates. Share-based compensation expense of these awards is recognized based on an accelerated multiple-award approach over the requisite service

period, which is approximately five years. All other restricted stock awards granted in 2009 are recognized using the straight-line method over the requisite service period, which is approximately three years.

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PBRS awards vest based on the extent to which certain incentive performance targets established in the year of grant are achieved. PBRS is subject to a graded vesting schedule whereby one third of the earned shares vest after the first year and the remaining earned shares vest in one-third increments each year over the next two years on the first business day in January.

Share-based compensation expense of restricted stock and PBRS for the three months ended June 30, 2009 and 2008 was \$868,000 and \$1.3 million, respectively, and \$2.0 million and \$2.5 million during the six months ended June 30, 2009 and 2008. Viad expects to recognize the unamortized cost of all outstanding restricted stock and PBRS awards in the consolidated financial statements over weighted-average periods of approximately 2.2 years and 1.1 years, respectively. During the six months ended June 30, 2009 and 2008, the Company repurchased 68,715 shares for \$1.2 million and 50,061 shares for \$1.6 million, respectively, related to tax withholding requirements on vested share-based awards.

The following table summarizes restricted stock and PBRS activity during the six months ended June 30, 2009:

	Restricted Stock		PBRS	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Balance at January 1, 2009	358,285	\$ 34.25	94,828	\$ 34.56
Granted	220,133	15.36	162,600	15.36
Vested	(176,312)	31.05	(46,701)	34.21
Forfeited	(11,096)	27.55	(4,500)	19.46
Balance at June 30, 2009	391,010	25.24	206,227	19.83

In addition to the awards in the table above, during the six months ended June 30, 2009, Viad granted 13,700 restricted stock units and 13,900 PBRS units to key employees at certain of the Company's Canadian operations. These awards will be settled in cash based on the market price of Viad's common stock. The aggregate liability is recorded at estimated fair value and is remeasured on each balance sheet date until the time of cash settlement. As of June 30, 2009, Viad had a liability recorded of \$50,000 related to these awards.

During the six months ended June 30, 2008, Viad granted awards totaling 101,940 units to key employees under the performance unit incentive plan (PUP) pursuant to the 2007 Plan. PUP awards are earned based on the level of achievement of predefined performance goals over a three-year performance period. As of June 30, 2009 and December 31, 2008, Viad had liabilities recorded of \$34,000 and \$2.9 million related to the PUP awards, respectively. Share-based compensation expense attributable to PUP awards (recognized ratably over the requisite service period of approximately three years) for the six months ended June 30, 2009 and 2008 was a credit of \$1.1 million and expense of \$813,000, respectively. The PUP awards for the 2006-2008 and 2005-2007 periods vested December 31, 2008 and 2007, respectively, and payouts of \$998,000 and \$6.7 million were distributed in March 2009 and 2008, respectively. No PUP awards vested during the six months ended June 30, 2009 or 2008 nor were there any additional cash settlements of PUP awards or any other share-based compensation awards during those periods. Viad did not grant any PUP awards during the six months ended June 30, 2009.

The following table summarizes stock option activity during the six months ended June 30, 2009:

	Shares	Weighted-Average Exercise Price	Options
			Exercisable
Options outstanding at January 1, 2009	606,660	\$ 25.86	459,612
Forfeited	(45,756)	27.84	

Options outstanding at June 30, 2009	560,904	25.70	474,508
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The following table summarizes information concerning stock options outstanding and exercisable as of June 30, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted-Average Remaining Contractual Life	Weighted- Average Exercise Price	Shares	Weighted- Average Exercise Price
\$18.40 to \$20.77	74,945	3.4 years	\$ 19.58	74,945	\$ 19.58
\$22.29 to \$24.05	100,677	1.5 years	23.88	100,677	23.88
\$24.22 to \$26.07	161,707	2.5 years	25.13	151,707	25.14
\$26.31 to \$26.49	150,750	2.6 years	26.34	118,404	26.34