

VIAD CORP  
Form 10-Q  
November 08, 2007

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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 **September 30, 2007**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 001-11015**

**VIAD CORP**

(Exact name of registrant as specified in its charter)

**Delaware**

**36-1169950**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**1850 North Central Avenue, Suite 800  
Phoenix, Arizona**

**85004-4545**

(Address of principal executive offices)

(Zip Code)

**(602) 207-4000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of October 31, 2007, 20,560,234 shares of common stock (\$1.50 par value) were outstanding.

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**VIAD CORP**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(in thousands, except share data)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 147,730	\$ 178,073
Accounts receivable, net of allowance for doubtful accounts of \$1,363 and \$1,374, respectively	74,819	40,757
Inventories	48,982	43,523
Deferred income taxes	21,218	16,521
Other current assets	12,690	8,444
<b>Total current assets</b>	<b>305,439</b>	<b>287,318</b>
Property and equipment, net	160,312	135,958
Other investments and assets	28,767	25,148
Deferred income taxes	36,130	39,152
Goodwill	226,185	184,154
Other intangible assets, net	14,561	834
<b>Total Assets</b>	<b>\$ 771,394</b>	<b>\$ 672,564</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 60,299	\$ 35,039
Other current liabilities	115,358	94,546
Current portion of long-term debt and capital lease obligations	2,345	2,099
<b>Total current liabilities</b>	<b>178,002</b>	<b>131,684</b>
Long-term debt and capital lease obligations	12,078	12,943
Pension and postretirement benefits	24,955	25,480
Other deferred items and liabilities	86,408	67,314
Commitments and contingencies (Note 15)		
Minority interest	6,045	5,220
Common stock and other equity:		
Common stock, \$1.50 par value, 200,000,000 shares authorized, 24,934,981 shares issued	37,402	37,402
Additional capital	634,247	637,177
Retained earnings	48,634	20,065
Unearned employee benefits and other	(8,939)	(14,214)
Accumulated other comprehensive income (loss):		
Unrealized gain on investments	578	498
Unrealized loss on derivative financial instruments		(103)

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Cumulative foreign currency translation adjustments	48,460	23,538
Unrecognized net actuarial loss and prior service credit	(3,271)	(3,035)
Common stock in treasury, at cost, 4,377,851 and 3,662,716 shares, respectively	(293,205)	(271,405)
Total common stock and other equity	463,906	429,923
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 771,394</b>	<b>\$ 672,564</b>

See Notes to Consolidated Financial Statements.

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**VIAD CORP**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(in thousands, except per share data)			
Revenues:				
Convention show services	\$ 141,611	\$ 143,342	\$ 569,113	\$ 500,515
Exhibit design and construction	36,845	40,348	142,928	128,260
Travel and recreation services	50,348	46,858	76,179	72,952
<b>Total revenues</b>	<b>228,804</b>	<b>230,548</b>	<b>788,220</b>	<b>701,727</b>
Costs and expenses:				
Costs of services	176,007	159,161	576,587	500,891
Costs of products sold	39,754	43,758	142,364	129,698
Business interruption insurance proceeds	(146)		(146)	
Corporate activities	2,342	3,457	7,365	8,656
Gains on sale of corporate assets				(3,468)
Restructuring charges (recoveries)	693	355	1,903	(215)
Impairment losses (recoveries)	(72)	193	(172)	(650)
Net interest income	(1,054)	(1,614)	(3,390)	(4,572)
<b>Total costs and expenses</b>	<b>217,524</b>	<b>205,310</b>	<b>724,511</b>	<b>630,340</b>
<b>Income before income taxes and minority interest</b>	<b>11,280</b>	<b>25,238</b>	<b>63,709</b>	<b>71,387</b>
Income tax expense	1,843	2,429	21,972	16,385
Minority interest	862	786	825	639
<b>Income from continuing operations</b>	<b>8,575</b>	<b>22,023</b>	<b>40,912</b>	<b>54,363</b>
Income (loss) from discontinued operations	(37)	1,496	65	11,026
<b>Net income</b>	<b>\$ 8,538</b>	<b>\$ 23,519</b>	<b>\$ 40,977</b>	<b>\$ 65,389</b>
<b>Diluted income per common share</b>				
Income from continuing operations	\$ 0.41	\$ 1.03	\$ 1.95	\$ 2.49
Income from discontinued operations		0.07		0.50
<b>Net income</b>	<b>\$ 0.41</b>	<b>\$ 1.10</b>	<b>\$ 1.95</b>	<b>\$ 2.99</b>

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Weighted-average outstanding and potentially dilutive common shares	20,787	21,424	20,965	21,850
<b>Basic income per common share</b>				
Income from continuing operations	\$ 0.42	\$ 1.04	\$ 1.99	\$ 2.53
Income from discontinued operations		0.07	0.01	0.52
<b>Net income</b>	\$ 0.42	\$ 1.11	\$ 2.00	\$ 3.05
Weighted-average outstanding common shares	20,345	21,121	20,521	21,456
Dividends declared per common share	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12

See Notes to Consolidated Financial Statements.

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**VIAD CORP**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in thousands)			
<b>Net income</b>	\$ 8,538	\$ 23,519	\$ 40,977	\$ 65,389
Other comprehensive income (loss):				
Unrealized gains on investments:				
Holding gains arising during the period, net of tax	6	22	80	22
Unrealized gains (losses) on derivative financial instruments:				
Holding gains (losses) arising during the period, net of tax	(38)	(59)	103	(36)
Unrealized foreign currency translation adjustments	12,374	(117)	24,922	6,359
Pension and postretirement benefit plans:				
Amortization of prior service credit, net of tax	(189)		(568)	
Amortization of net actuarial loss, net of tax	190		332	
Other comprehensive income (loss)	12,343	(154)	24,869	6,345
Comprehensive income	\$ 20,881	\$ 23,365	\$ 65,846	\$ 71,734

See Notes to Consolidated Financial Statements.

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**VIAD CORP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<b>Nine months ended September</b>	
	<b>30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 40,977	\$ 65,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,965	15,044
Deferred income taxes	(3,997)	1,477
Income from discontinued operations	(65)	(11,026)
Restructuring charges (recoveries)	1,903	(215)
Impairment recoveries	(172)	(650)
Gains on dispositions of property and other assets	(229)	(3,478)
Share-based compensation expense	7,154	7,072
Tax benefits from share-based compensation arrangements	2,237	7,446
Excess tax benefits from share-based compensation arrangements	(1,512)	(4,340)
Other non-cash items, net	3,682	3,531
Change in operating assets and liabilities:		
Receivables	(22,219)	(4,509)
Inventories	(2,425)	(1,449)
Accounts payable	20,698	13,843
Restructuring liabilities	(3,068)	(1,168)
Other assets and liabilities, net	(8,765)	(11,386)
Net cash provided by operating activities	51,164	75,581
<b>Cash flows from investing activities:</b>		
Capital expenditures	(23,388)	(14,695)
Acquisition of businesses, net of cash acquired	(33,164)	
Proceeds from dispositions of property and other assets	717	13,872
Net cash used in investing activities	(55,835)	(823)
<b>Cash flows from financing activities:</b>		
Payments on debt and capital lease obligations	(1,767)	(2,941)
Dividends paid on common stock	(2,502)	(2,603)
Common stock purchased for treasury	(28,188)	(34,413)
Excess tax benefits from share-based compensation arrangements	1,512	4,340
Proceeds from exercise of stock options	1,984	5,028
Debt issuance costs		(488)
Net cash used in financing activities	(28,961)	(31,077)

Effect of exchange rate changes on cash and cash equivalents	3,289	943
Net increase (decrease) in cash and cash equivalents	(30,343)	44,624
Cash and cash equivalents, beginning of year	178,073	152,601
<b>Cash and cash equivalents, end of period</b>	<b>\$ 147,730</b>	<b>\$ 197,225</b>

**Supplemental disclosure of cash flow information**

Cash paid during the period for:		
Income taxes	\$ 18,854	\$ 11,359
Interest	\$ 873	\$ 879
Equipment acquired under capital leases	\$ 1,078	\$ 815

See Notes to Consolidated Financial Statements.

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**VIAD CORP**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1. Basis of Preparation and Principles of Consolidation**

The accompanying unaudited consolidated financial statements of Viad Corp ( Viad or the Company ) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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

The consolidated financial statements include the accounts of Viad and all of its subsidiaries. All significant intercompany account balances and transactions between Viad and its subsidiaries have been eliminated in consolidation. Viad s reporting segments consist of: GES Exposition Services, Inc. ( GES ), Exhibitgroup/Giltspur ( Exhibitgroup ) and Travel and Recreation Services. The Travel and Recreation Services segment consists of Brewster Inc. ( Brewster ) and Glacier Park, Inc. ( Glacier Park ), and their related affiliates. Glacier Park is an 80 percent owned subsidiary of Viad.

**Note 2. Share-Based Compensation**

Viad has granted share-based compensation awards to officers, directors and certain key employees pursuant to the 1997 Viad Corp Omnibus Incentive Plan (the 1997 Plan ) including the following types of awards: (a) incentive and non-qualified stock options, (b) restricted stock and (c) performance-based awards. The 1997 Plan had a ten-year life and terminated effective May 31, 2007. Therefore, no further awards will be made from the 1997 Plan after May 31, 2007. Existing awards from the 1997 Plan will continue to vest and be exercisable until such time that all awards have either vested, been exercised, been forfeited or expired. On May 15, 2007, at the 2007 Annual Meeting of Shareholders, the 2007 Viad Corp Omnibus Incentive Plan (the 2007 Plan ) was approved by the Company s shareholders. The 2007 Plan, also with a ten-year life, provides for the following types of awards to officers, directors and certain other employees: (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 Plan 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. All awards granted after May 31, 2007 were made from the 2007 Plan.

Viad issues shares related to its share-based compensation awards from its Employee Equity Trust and from shares held in treasury. Viad has the authority to repurchase common stock for the purpose of replacing shares issued upon exercise of stock options and in connection with other stock compensation plans. There were no repurchases of common stock under this program during the nine months ended September 30, 2007 or 2006. As of September 30, 2007, all shares in the Employee Equity Trust had been utilized.

Total share-based compensation expense recognized in the consolidated financial statements during the three months ended September 30, 2007 and 2006 was \$1.1 million and \$3.0 million, respectively, and \$7.2 million and \$7.1 million during the nine months ended September 30, 2007 and 2006, respectively. Furthermore, the total tax benefits related to such costs were \$412,000 and \$1.1 million for the three months ended September 30, 2007 and 2006, respectively, and \$2.7 million for the nine months ended September 30, 2007 and 2006. No share-based compensation costs were capitalized during the nine months ended September 30, 2007 or 2006.

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The following table summarizes stock option activity during the nine months ended September 30, 2007:

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Options Exercisable</b>
Options outstanding at January 1, 2007	836,912	\$ 24.19	600,707
Granted	21,400	38.44	
Exercised	(100,311)	21.79	
Forfeited	(13,922)	26.12	
Options outstanding at September 30, 2007	744,079	24.88	561,413

The following table summarizes information concerning stock options outstanding and exercisable as of September 30, 2007:

<b>Range of Exercise Prices</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Shares</b>	<b>Weighted-Average Remaining Contractual Life</b>	<b>Weighted-Average Exercise Price</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>
\$18.40 to \$23.28	134,644	5.0 years	\$ 19.61	134,644	\$ 19.61
\$23.32 to \$24.05	176,954	2.6 years	23.76	176,954	23.76
\$24.22 to \$26.07	165,925	3.9 years	25.16	131,101	25.41
\$26.31 to \$26.47	160,230	4.4 years	26.32	59,760	26.32
\$26.49 to \$38.44	106,326	3.8 years	30.82	58,954	28.19
\$18.40 to \$38.44	744,079	3.9 years	24.88	561,413	23.89

In addition to the above, Viad had stock options outstanding which were granted to employees of MoneyGram International, Inc. ( MoneyGram ) prior to the spin-off of that company as described in Note 16. As of September 30, 2007, there were 77,634 of such options outstanding of which 59,755 were exercisable, both with exercise prices ranging from \$19.57 to \$28.15. The weighted-average remaining contractual life of these options outstanding was approximately 3.6 years. During the nine months ended September 30, 2007, 18,083 options were exercised by MoneyGram employees at exercise prices ranging from \$17.51 to \$28.15.

The aggregate intrinsic value related to stock options outstanding as of September 30, 2007 was \$8.3 million and is based on the weighted-average exercise price and Viad's closing stock price of \$36.00 as of September 30, 2007. The total intrinsic value of stock option awards exercised during the nine months ended September 30, 2007 and 2006 was \$1.7 million and \$1.8 million, respectively. The fair value of stock options that vested during the nine months ended September 30, 2007 and 2006 was \$572,000 and \$2.0 million, respectively. During the nine months ended September 30, 2007 and 2006, Viad received cash proceeds from the exercise of stock options of \$2.0 million and \$5.0 million, respectively. The tax benefits realized for the tax deductions related to the exercise of stock options and vesting of restricted stock and performance-based awards was \$2.2 million and \$7.4 million for the nine months ended September 30, 2007 and 2006, respectively.

Restricted stock awards were granted during the nine months ended September 30, 2007 and 2006, the grant date fair values of which were based on the fair market value on the date of grant. Restricted stock awards vest between three and five years from the date of grant. Viad expects to recognize the unamortized cost of all outstanding awards in the consolidated financial statements over a weighted-average period of approximately 2.2 years. Viad also granted awards of performance-based restricted stock ( PBRs ) during the nine months ended September 30, 2007 and 2006.

The weighted-average grant date fair values are based on the fair market value on the date of grant. PBRS vests based on the extent to which certain incentive performance targets established in the year of grant are achieved at target levels. PBRS awards are subject to a graded vesting schedule whereby one third of the earned shares vest after the first year, an additional one third after two years and the balance after three years from the date of grant. Share-based compensation expense related to PBRS awards is recognized based on an accelerated multiple-award approach over the requisite service period, which is approximately three years. Viad expects to recognize the unamortized costs of all outstanding awards in the consolidated financial statements over a weighted-average period of approximately 1.8 years.

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The following table summarizes restricted stock and PBRS activity during the nine months ended September 30, 2007:

	Restricted Stock		PBRS	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Balance at January 1, 2007	295,225	\$ 30.02	109,788	\$ 28.79
Granted	80,100	38.61	33,400	38.44
Vested	(23,875)	24.12	(51,276)	27.81
Forfeited	(5,650)	31.26		
Balance at September 30, 2007	345,800	32.39	91,912	32.85

Viad has granted awards of units under the performance unit incentive plan ( PUP ) to key employees pursuant to the 1997 Plan. PUP awards are earned based on the level of achievement of predefined performance goals over a three-year performance period. To the extent earned, the PUP awards will be settled in cash based on the market price of Viad's common stock. The aggregate liability related to PUP awards is recorded at estimated fair value based on the number of units expected to vest, and is remeasured on each balance sheet date until the time of cash settlement. As of September 30, 2007, Viad had a liability recorded of \$9.2 million related to the PUP awards. Share-based compensation expense related to the PUP awards is recognized ratably over the requisite service period, which is approximately three years. There were no PUP awards which vested during the nine months ended September 30, 2007 or 2006. Furthermore, there were no cash settlements of PUP awards or any other share-based compensation awards during such periods.

**Note 3. Impairment Losses and Recoveries**

During the nine months ended September 30, 2007 and 2006, Viad recorded impairment recoveries related to claims associated with Hurricane Katrina of \$172,000 and \$1.3 million, respectively (including \$72,000 and \$407,000 during the three months ended September 30, 2007 and 2006, respectively). These amounts are included in the consolidated statements of operations under the caption Impairment losses (recoveries). In addition, during the three months ended September 30, 2007, Viad received an additional \$146,000 related to its business interruption insurance claim at Exhibitgroup which is included in the consolidated statements of operations under the caption Business interruption insurance proceeds.

In September 2006, Viad recorded an impairment loss of \$600,000 related to the reduction in value of a non-core asset which was subsequently sold for \$2.0 million in the fourth quarter of 2006. This charge is included in the consolidated statements of operations under the caption Impairment losses (recoveries).

**Note 4. Gains on Sale of Corporate Assets**

In January 2006, Viad sold its remaining 50 percent interest in its corporate aircraft along with related equipment to MoneyGram for \$10.0 million in cash, resulting in a gain of \$1.7 million. See Note 16. Also in January 2006, Viad sold certain undeveloped land in Phoenix, Arizona for \$2.9 million in cash to an unrelated third party, resulting in a gain of \$1.7 million. These amounts are included in the consolidated statements of operations under the caption Gains on sale of corporate assets.

**Note 5. Acquisition of Businesses**

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

subsidiaries of GES Service Companies Limited. The operating results of Melville have been included in Viad's consolidated financial statements from the date of acquisition.

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

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The purchase price allocation involves estimates, which may be adjusted during the allowable allocation period of one year from the date of acquisition. The purchase price allocation has not been finalized and remains subject to future adjustments. The following condensed balance sheet information represents the amounts currently assigned to each major asset and liability caption of Melville as of the date of acquisition:

	<b>(in thousands)</b>
Cash and cash equivalents	\$ 5,848
Accounts receivable	11,383
Other current assets	6,063
Property and equipment	4,978
Goodwill	29,282
Other intangible assets	13,090
 Total assets acquired	 70,644
 Accounts payable	 (16,632)
Customer deposits	(11,035)
Other current liabilities	(5,890)
Other non-current liabilities	(2,102)
 Total liabilities assumed	 (35,659)
 Purchase price	 \$ 34,985

The Company recorded \$29.3 million of goodwill in connection with the transaction, which is included in the GES reporting segment. The entire amount of goodwill related to the Melville acquisition is expected to be deductible for tax purposes over a period of approximately 15 years. The amounts assigned to other intangible assets include \$9.2 million of non-amortizable trademarks and trade names and \$3.8 million of intangible assets subject to amortization. The amortizable intangible assets consist of \$3.1 million of customer relationships, \$393,000 of customer contracts and \$305,000 of other intangible assets. The amortizable intangible assets are expected to be amortized in the consolidated financial statements over a weighted-average amortization period of approximately 5.0 years. See Note 8.

The following table summarizes the unaudited pro forma results of operations of Viad for the three and nine months ended September 30, 2007 and 2006, assuming that the acquisition of Melville had been completed at the beginning of each period:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(in thousands, except per share data)</b>			
Revenue	\$ 228,804	\$ 249,322	\$ 797,791	\$ 778,429
Income from continuing operations	\$ 8,575	\$ 20,724	\$ 41,458	\$ 56,869
Net income	\$ 8,538	\$ 22,220	\$ 41,523	\$ 67,895
Diluted net income per share	\$ 0.41	\$ 1.04	\$ 1.98	\$ 3.11
Basic net income per share	\$ 0.42	\$ 1.05	\$ 2.02	\$ 3.16



On April 13, 2007, Brewster acquired Lake Minnewanka Boat Tours, a tour boat operator in Banff, Alberta, Canada, for \$2.2 million in cash including direct acquisition costs. Viad's consolidated financial statements include the results of operations of the acquired company from the date of acquisition. The historical results of operations of the acquired company were not significant to Viad's consolidated results of operations for the periods presented. The preliminary allocation of the aggregate purchase price includes: tangible assets of \$1.9 million, assumed liabilities of \$456,000, goodwill of \$490,000 and other intangible assets of \$277,000. The amounts assigned to other intangible assets include \$85,000 of intangible assets subject to amortization. The Company recorded \$490,000 of goodwill in connection with the transaction, which is included in the Travel and Recreation Services reporting segment. The total amount of recorded goodwill is not expected to be deductible for tax purposes. The purchase price allocation has not been finalized and remains subject to future adjustments.

On June 29, 2007, GES acquired Poitras Exposition Services, a convention services contractor in Quebec City, Canada, for an aggregate purchase price of \$2.2 million including direct acquisition costs. Pursuant to the terms of the purchase agreement, GES paid \$1.8 million of the total purchase price on the acquisition date. The remaining consideration is subject to adjustment, and is to be paid upon resolution of certain provisions contained in the purchase agreement. Viad's consolidated financial statements include the results of operations of the acquired company from the date of acquisition. The historical results of operations of the acquired company were not significant to Viad's consolidated results of operations for the periods presented. The preliminary allocation of the aggregate purchase price includes: tangible assets of \$728,000 (including cash acquired of \$59,000), assumed

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liabilities of \$519,000, goodwill of \$1.4 million and other intangible assets of \$528,000. The amounts assigned to other intangible assets include \$379,000 of intangible assets subject to amortization. The Company recorded \$1.4 million of goodwill in connection with the transaction, which is included in the GES reporting segment. The total amount of recorded goodwill is not expected to be deductible for tax purposes. The purchase price allocation has not been finalized and remains subject to future adjustments.

**Note 6. Inventories**

The components of inventories were as follows:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(in thousands)</b>	
Raw materials	\$ 27,145	\$ 24,068
Work in process	21,837	19,455
Inventories	\$ 48,982	\$ 43,523

**Note 7. Property and Equipment**

Property and equipment consisted of the following:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(in thousands)</b>	
Land	\$ 27,478	\$ 24,375
Buildings and leasehold improvements	90,482	80,831
Equipment and other	258,379	225,883
	376,339	331,089
Accumulated depreciation	(216,027)	(195,131)
Property and equipment, net	\$ 160,312	\$ 135,958

Depreciation expense for the three months ended September 30, 2007 and 2006 was \$5.7 million and \$5.0 million, respectively, and for the nine months ended September 30, 2007 and 2006 was \$16.2 million and \$14.8 million, respectively.

**Note 8. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2007 were as follows:

	<b>GES</b>	<b>Travel and Recreation (in thousands)</b>	<b>Total</b>
Balance at January 1, 2007	\$ 149,490	\$ 34,664	\$ 184,154
Business acquisitions	30,698	490	31,188
Foreign currency translation adjustments	3,542	7,301	10,843
Balance at September 30, 2007	\$ 183,730	\$ 42,455	\$ 226,185



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A summary of other intangible assets as of September 30, 2007 is presented below:

	<b>Gross Carrying Value</b>	<b>Accumulated Amortization (in thousands)</b>	<b>Net Carrying Value</b>
Amortized intangible assets:			
Customer-related intangibles	\$ 5,115	\$ (1,177)	\$ 3,938
Other	1,107	(442)	665
	6,222	(1,619)	4,603
Unamortized intangible assets:			
Trademarks and trade names	9,928		9,928
Marketing-related intangible	30		30
	9,958		9,958
Total	\$ 16,180	\$ (1,619)	\$ 14,561

A summary of other intangible assets as of December 31, 2006 is presented below:

	<b>Gross Carrying Value</b>	<b>Accumulated Amortization (in thousands)</b>	<b>Net Carrying Value</b>
Amortized intangible assets:			
Customer-related intangibles	\$ 901	\$ (481)	\$ 420
Other	589	(205)	384
	1,490	(686)	804
Unamortized intangible assets:			
Marketing-related intangible	30		30
Total	\$ 1,520	\$ (686)	\$ 834

Intangible asset amortization expense for the three months ended September 30, 2007 and 2006 was \$312,000 and \$69,000, respectively, and \$774,000 and \$207,000 for the nine months ended September 30, 2007 and 2006, respectively. The estimated weighted-average amortization period of amortized intangible assets as of September 30, 2007 was approximately 4.4 years. Estimated amortization expense related to amortized intangible assets for future periods is expected to be as follows:

	<b>(in thousands)</b>
2007	\$ 321

2008	\$ 1,260
2009	\$ 978
2010	\$ 833
2011 and thereafter	\$ 1,211

**Table of Contents****Note 9. Accrued Liabilities and Other**

Other current liabilities consisted of the following:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(in thousands)</b>	
Continuing operations:		
Customer deposits	\$ 45,669	\$ 30,497
Accrued compensation	29,030	22,145
Self-insured liability accrual	7,837	7,681
Accrued sales and use taxes	3,029	1,417
Accrued income taxes	2,609	8,464
Accrued restructuring	2,511	1,572
Accrued dividends	876	937
Other	19,475	15,645
	111,036	88,358
Discontinued operations:		
Environmental remediation liabilities	2,510	2,825
Self-insured liability accrual	600	752
Accrued income taxes		1,507
Other	1,212	1,104
	4,322	6,188
Total other current liabilities	\$ 115,358	\$ 94,546

Other deferred items and liabilities consisted of the following:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(in thousands)</b>	
Continuing operations:		
Accrued income taxes	\$ 18,665	\$
Self-insured liability accrual	14,547	12,278
Accrued compensation	7,905	12,109
Foreign deferred tax liability	6,946	5,439
Accrued restructuring	6,271	7,117
Deferred gain on sale of property	2,819	3,544
Other	9,095	6,573
	66,248	47,060
Discontinued operations:		

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Self-insured liability accrual	10,913	11,170
Environmental remediation liabilities	5,985	6,217
Accrued income taxes	806	
Other	2,456	2,867
	20,160	20,254
Total other deferred items and liabilities	\$ 86,408	\$ 67,314

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**Table of Contents****Note 10. Debt**

As of September 30, 2007, Viad's total debt of \$14.4 million consisted of \$5.0 million of capital lease obligations and a \$9.4 million borrowing under the Company's secured revolving credit agreement (the Credit Facility) which was amended June 15, 2006. The Credit Facility provides for a \$150 million revolving line of credit, which may be increased up to an additional \$75 million under certain circumstances. The term of the Credit Facility is five years (expiring on June 15, 2011) and borrowings are to be used for general corporate purposes (including permitted acquisitions) and to support up to \$75 million of letters of credit. The lenders have a first perfected security interest in all of the personal property of Viad and GES, including 65 percent of the capital stock of top-tier foreign subsidiaries.

Borrowings under the Credit Facility (of which GES is a guarantor) are indexed to the prime rate or the London Interbank Offering 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. Financial covenants include a minimum consolidated net worth requirement of not less than \$344.6 million plus 50 percent of positive quarterly net income earned in each fiscal quarter beginning with the quarter ended June 30, 2006 plus net cash proceeds from all issuances of capital stock minus the amount of capital stock repurchased, a fixed-charge coverage ratio of not less than 1.25 to 1 and a leverage ratio of not greater than 2.75 to 1. Significant other covenants include limitations on: investments, common stock dividends, stock repurchases, additional indebtedness, sales/leases of assets, acquisitions, consolidations or mergers and liens on property. Effective August 27, 2007, the Credit Facility was amended to permit Viad to repurchase an additional \$50 million of its common stock (\$110 million in total) during the term of the Credit Facility. As of September 30, 2007, Viad was in compliance with all covenants.

**Note 11. Income Per Share**

A reconciliation of the numerators and denominators of diluted and basic per share computations for income from continuing operations is as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(in thousands, except per share data)</b>			
Income from continuing operations	\$ 8,575	\$ 22,023	\$ 40,912	\$ 54,363
Weighted-average outstanding common shares	20,345	21,121	20,521	21,456
Additional dilutive shares related to share-based compensation	442	303	444	394
Weighted-average outstanding and potentially dilutive common shares	20,787	21,424	20,965	21,850
Diluted income per share from continuing operations	\$ 0.41	\$ 1.03	\$ 1.95	\$ 2.49
Basic income per share from continuing operations	\$ 0.42	\$ 1.04	\$ 1.99	\$ 2.53

Options to purchase 17,000 shares of common stock were outstanding during the nine months ended September 30, 2007 but were not included in the computation of diluted income per share because the effect would be anti-dilutive. No options were anti-dilutive during the nine months ended September 30, 2006, and therefore, no options were



excluded from the computation of diluted income per share for that period.

**Table of Contents****Note 12. Income Taxes**

A reconciliation of income tax expense and the amount that would be computed using statutory federal income tax rates for the nine months ended September 30 is as follows:

	<b>2007</b>		<b>2006</b>	
	<b>(in thousands)</b>			
Computed income tax expense at statutory federal income tax rate of 35%	\$ 22,298	35.0%	\$ 24,985	35.0%
State income taxes, net of federal benefit	1,989	3.1%	2,632	3.7%
Tax resolutions and refunds	(1,906)	(3.0%)	(10,000)	(14.0%)
Other, net	(409)	(0.6%)	(1,232)	(1.7%)
<b>Income tax expense</b>	<b>\$ 21,972</b>	<b>34.5%</b>	<b>\$ 16,385</b>	<b>23.0%</b>

Viad is subject to regular and recurring audits by the taxing authorities in the jurisdictions in which the Company conducts or had previously conducted operations. These include U.S. federal and most state jurisdictions, and certain foreign jurisdictions including Canada, the United Kingdom and Germany.

Effective January 1, 2007, Viad adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ), an interpretation of Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes. FIN 48 provides guidance on how to address uncertainty in accounting for income tax assets and liabilities and prescribes a more-likely-than-not threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. As of January 1, 2007, the cumulative effect of applying the provisions of FIN 48 resulted in a net decrease to retained earnings of \$10.0 million, an increase to accrued income taxes of \$13.2 million and an increase to deferred tax assets of \$3.2 million.

Viad exercises significant judgment in determining its income tax provision due to transactions, credits and calculations where the ultimate tax determination is uncertain. As of September 30, 2007 and January 1, 2007 (date of adoption), Viad had accrued gross liabilities associated with uncertain tax positions for continuing operations of \$14.3 million and \$15.7 million, respectively. In addition, as of September 30, 2007 and January 1, 2007, Viad had accrued interest and penalties related to uncertain tax positions for continuing operations of \$5.4 million and \$5.1 million, respectively. Upon adoption of FIN 48, the Company elected to continue to classify interest and penalties related to income tax liabilities as a component of income tax expense. During the three months ended September 30, 2007 and 2006, Viad recorded tax-related interest expense of \$343,000 and \$319,000, respectively. During the nine months ended September 30, 2007 and 2006, Viad recorded tax-related interest expense of \$937,000 and \$1.1 million, respectively.

In addition to the above, Viad had accrued gross liabilities associated with uncertain tax positions for discontinued operations of \$636,000 as of September 30, 2007 and \$942,000 as of January 1, 2007. In addition, as of September 30, 2007 and January 1, 2007, Viad had accrued interest and penalties related to uncertain tax positions for discontinued operations of \$203,000 and \$971,000, respectively. Future tax resolutions or settlements that may occur related to these uncertain tax positions would be recorded through discontinued operations (net of federal tax effects, if applicable).

The following represents a reconciliation of the total amounts of liabilities associated with uncertain tax positions (excluding interest and penalties) for the nine months ended September 30, 2007:

<b>Continuing Operations</b>	<b>Discontinued Operations</b>	<b>Total</b>
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		<b>(in thousands)</b>	
Balance at January 1, 2007	\$ 15,738	\$ 942	\$ 16,680
Additions for tax positions taken in prior years	243		243
Reductions for cash payments	(230)		(230)
Reductions for lapse of applicable statutes	(2,119)	(306)	(2,425)
Foreign exchange effects	635		635
Balance at September 30, 2007	\$ 14,267	\$ 636	\$ 14,903

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As of September 30, 2007, the entire amount of unrecognized tax benefits for continuing operations of \$14.3 million (excluding federal income tax effects of \$2.9 million) would favorably affect Viad's effective tax rate, if recognized, as the related uncertain tax positions are permanent in nature. However, if amounts accrued are less than amounts ultimately assessed by the taxing authorities, Viad would record additional income tax expense. To the extent that the Company has favorable tax settlements, or determines that accrued amounts are no longer needed due to a lapse in the applicable statute of limitations or other reasons, such liabilities would be reversed as a reduction of income tax expense (net of federal tax effects, if applicable) in the period such determination is made. The Company believes that it is reasonably possible that approximately \$7.1 million (excluding federal income tax effects of \$596,000) of its uncertain tax positions could be resolved or settled within the next 12 months which would reduce the amount of accrued income taxes payable. If such tax resolutions or settlements occur, they could result in cash payments, the recognition of additional income tax expense, or the reversal of accrued income taxes which may impact Viad's effective tax rate in future periods.

Viad's 2004 through 2006 U.S. federal tax years and various state tax years from 2002 through 2006 remain subject to income tax examinations by tax authorities. In addition, tax years from 2001 through 2006 related to Viad's foreign taxing jurisdictions also remain subject to examination.

In conjunction with the adoption of FIN 48, Viad has classified liabilities associated with uncertain tax positions as non-current liabilities in Viad's consolidated balance sheet unless they are expected to be paid within the next year. As of September 30, 2007 and January 1, 2007, liabilities associated with uncertain tax positions (including interest and penalties) of \$20.0 million and \$17.0 million, respectively, were classified as non-current liabilities.

**Note 13. Pension and Postretirement Benefit Plans**

The net periodic benefit cost of Viad's pension and postretirement benefit plans for the three months ended September 30 included the following components:

	Pension Plans		Postretirement Benefit Plans	
	2007	2006	2007	2006
	(in thousands)			
Service cost	\$ 76	\$ 44	\$ 17	\$ 17
Interest cost	313	285	244	252
Expected return on plan assets	(186)	(199)	(93)	(70)
Amortization of prior service cost (credit)	51	52	(362)	(291)
Recognized net actuarial loss	109	114	99	
Net periodic benefit cost (credit)	\$ 363	\$ 296	\$ (95)	\$ (92)

For the nine months ended September 30, the net periodic benefit cost for Viad's pension and postretirement benefit plans included the following components:

	Pension Plans		Postretirement Benefit Plans	
	2007	2006	2007	2006
	(in thousands)			
Service cost	\$ 172	\$ 148	\$ 55	\$ 59
Interest cost	868	845	780	896
Expected return on plan assets	(558)	(597)	(279)	(212)
Amortization of prior service cost (credit)	155	156	(1,086)	(871)
Recognized net actuarial loss	327	355	371	291
Net periodic benefit cost (credit)	\$ 964	\$ 907	\$ (159)	\$ 163

Viad expects to contribute \$599,000 to its funded pension plans, \$579,000 to its unfunded pension plans and \$600,000 to its postretirement benefit plans in 2007. As of September 30, 2007, Viad had contributed \$528,000 to its funded pension plans, \$425,000 to its unfunded pension plans and \$548,000 to its postretirement benefit plans.

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**Table of Contents****Note 14. Restructuring Charges and Recoveries**

During the nine months ended September 30, 2007, Exhibitgroup recorded restructuring charges totaling \$2.0 million consisting of severance and other employee benefits associated with an organizational realignment. As of September 30, 2007, a liability remained of \$251,000 which was included in the consolidated balance sheets under the caption Other current liabilities. This liability is expected to be paid by the end of 2007. Additionally, in conjunction with the acquisition of Melville, GES recorded a restructuring liability of \$1.3 million consisting primarily of costs associated with the planned consolidation of duplicate facilities at Melville of \$853,000, certain severance and other employee benefit costs of \$281,000 and other exit costs of \$208,000. GES expects to substantially complete the restructuring activities by December 31, 2007; however, payments due under the long-term lease obligations will continue to be made over the remaining terms of the lease agreements. As of September 30, 2007, there was a remaining liability of \$1.1 million of which \$417,000 was included in the consolidated balance sheets under the caption Other current liabilities and \$648,000 under the caption Other deferred items and liabilities.

In 2004, Viad recorded a restructuring charge resulting from the consolidation of certain leased office space at its corporate headquarters. Viad revises this estimated future obligation annually and during the third quarters of 2007 and 2006 recorded a recovery of \$61,000 and a charge of \$355,000, respectively. As of September 30, 2007, a liability of \$958,000 remained of which \$246,000 was included in the consolidated balance sheets under the caption Other current liabilities and \$712,000 under the caption Other deferred items and liabilities.

In 2002, Viad approved a restructuring plan related to Exhibitgroup and as of September 30, 2007, a liability remained of \$1.1 million (comprised solely of future lease payment obligations) of which \$251,000 and \$865,000 were included in the consolidated balance sheets under the captions Other current liabilities and Other deferred items and liabilities, respectively. In 2001, Viad approved a plan of restructuring and as of September 30, 2007, a liability remained of \$6.4 million (comprised solely of future lease payment obligations), of which \$1.6 million and \$4.8 million were included in the consolidated balance sheets under the captions Other current liabilities and Other deferred items and liabilities, respectively. Payments due under long-term lease obligations will continue to be made over the remaining terms of the lease agreements.

A summary of the changes in Viad's restructuring liability balances as of September 30, 2007 is as follows:

	<b>2007</b>	<b>2002</b>	<b>2001</b>
	<b>Restructuring</b>	<b>Restructuring</b>	<b>Restructuring</b>
		<b>(in</b>	
		<b>thousands)</b>	
Balance at January 1, 2007	\$	\$ 1,277	\$ 7,412
Melville acquisition liability	1,342		
Restructuring charges	1,964		
Cash payments	(1,845)	(161)	(1,062)
Non-cash adjustment	(163)		
Adjustments for change in foreign currency	18		
Balance at September 30, 2007	\$ 1,316	\$ 1,116	\$ 6,350

**Note 15. Litigation, Claims and Other Contingencies**

Viad and certain of its subsidiaries are plaintiffs or defendants to various actions, proceedings and legal matters including claims and counter-claims. Some of the foregoing involve, or may involve, compensatory, punitive or other damages. Litigation is subject to many uncertainties and it is possible that some of the legal actions, proceedings or claims could be decided against Viad. Although the amount of liability as of September 30, 2007, with respect to certain of these matters is not ascertainable, Viad believes that any resulting liability, after taking into consideration amounts already provided for, including insurance coverage, will not have a material impact on the Company's financial position or results of operations.

Viad is subject to various U.S. federal, state and foreign laws and regulations governing the prevention of pollution and the protection of the environment in the jurisdictions in which Viad has or had operations. If the Company has failed to comply with these environmental laws and regulations, civil and criminal penalties could be imposed and Viad could become subject to regulatory enforcement actions in the form of injunctions and cease and desist orders. As is the case with many companies, Viad also faces exposure to actual or potential claims and lawsuits involving environmental matters relating to its past operations. Although Viad is a party to certain environmental disputes, Viad believes that any resulting liabilities, after taking into consideration amounts already provided for, including insurance coverage, will not have a material impact on the Company's financial position or results of operations. As of September 30, 2007 and December 31, 2006, Viad had recorded environmental remediation liabilities of \$8.5 million and \$9.0 million, respectively, related to previously sold operations.

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Included in GES's results of operations for the nine month period ended September 30, 2007 was \$3.9 million related to the favorable resolution of a contract dispute.

As of September 30, 2007, Viad had certain obligations under guarantees to third parties on behalf of its subsidiaries. These guarantees are not subject to liability recognition in the consolidated financial statements and primarily relate to leased facilities and credit or loan arrangements with banks, 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, 2007 would be \$31.4 million, of which \$31.3 million related to guarantees on a leased facility and certain equipment expiring through January 2015. As of September 30, 2007, the aggregate guarantees related to credit or lease arrangements with a bank were \$81,000 which expire concurrent with the lease arrangements. 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.

Glacier Park operates the concession portion of its business under concession contracts with the U.S. National Park Service (the Park Service) for Glacier National Park and with the Canadian Government for Waterton Lakes National Park. Glacier Park's 42-year lease with the Canadian Government expires in 2010, with Glacier Park having an option to renew for two additional terms of 42 years each. Glacier Park's original 25-year concession contract with the Park Service that was to expire on December 31, 2005, was extended for two one-year periods and now expires on December 31, 2007. The Park Service, in its sole discretion, may continue extending Glacier Park's concession contract in increments of one to three years. Management believes the Park Service is likely to extend the contract through December 31, 2008. When this contract ultimately expires, Glacier Park will have the opportunity to bid on a new concession contract. If Glacier Park does secure a new contract, possible terms would be for 10, 15 or 20 years. If a new concessionaire is selected by the Park Service, Glacier Park's remaining business would consist of the operations at Waterton Lakes National Park and East Glacier, Montana. In such a circumstance, Glacier Park would be entitled to an amount equal to its possessory interest, which generally means the value of the structures acquired or constructed, fixtures installed and improvements made to the concession property at Glacier National Park during the term of the concessions contract. This value would be based on the reconstruction cost of a new unit of like kind, less physical depreciation, but not to exceed fair market value. Glacier Park generated 19 percent of Travel and Recreation Services' full year 2006 operating income.

**Note 16. Related Party Transactions**

On June 30, 2004, Viad separated its payment services business from its other businesses by means of a tax-free spin-off. In January 2006, Viad sold its 50 percent interest in its corporate aircraft and certain related equipment to MoneyGram for \$10.0 million in cash, resulting in a gain of \$1.7 million. In conjunction with this sale, a Joint Ownership Agreement that was in place was terminated. In addition, certain members of Viad's Board of Directors are also Directors of MoneyGram.



**Table of Contents****Note 17. Segment Information**

Viad measures profit and performance of its operations on the basis of segment operating income which excludes restructuring charges and recoveries and impairment losses and recoveries. Intersegment sales are eliminated in consolidation and intersegment transfers are not significant. Corporate activities include expenses not allocated to operations. Depreciation and amortization are the only significant non-cash items for the reportable segments. Disclosures regarding Viad's reportable segments with reconciliations to consolidated totals are as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(in thousands)</b>			
Revenues:				
GES	\$ 151,616	\$ 151,737	\$ 589,333	\$ 515,200
Exhibitgroup	26,840	31,953	122,708	113,575
Travel and Recreation Services	50,348	46,858	76,179	72,952
	\$ 228,804	\$ 230,548	\$ 788,220	\$ 701,727
Segment operating income (loss):				
GES				