VIAD CORP
Form 10-Q
November 02, 2018

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, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to

Commission file number: 001-11015

Viad Corp

(Exact name of registrant as specified in its charter)

Delaware	36-1169950
State or other jurisdiction of	(I.R.S. Employer
incorporation or organization	Identification No.)
1850 North Central Avenue, Suite 1900	85004-4565

Phoenix, Arizona
(Address of principal executive offices) (Zip Code)

(602) 207-1000

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files.) Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 26, 2018, there were 20,340,530 shares of Common Stock ($1.50 par value) outstanding.

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In this report, for periods presented, "we," "us," "our," "the Company," and "Viad Corp" refer to Viad Corp and its subsidiarie and affiliates.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VIAD CORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 55,470	$ 53,723
Accounts receivable, net of allowances for doubtful accounts of $1,561 and $2,023, respectively	124,905	104,811
Inventories	18,703	17,550
Current contract costs	24,796	13,436
Other current assets	25,707	19,741
Total current assets	249,581	209,261
Property and equipment, net	332,005	305,571
Other investments and assets	44,527	48,187
Deferred income taxes	20,641	23,548
Goodwill	266,731	270,551
Other intangible assets, net	54,705	62,781
Total Assets	$ 968,190	$ 919,899
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 84,910	$ 77,380
Contract liabilities	58,260	31,981
Accrued compensation	23,527	30,614
Other current liabilities	40,132	40,154
Current portion of debt and capital lease obligations	155,756	152,599
Total current liabilities	362,585	332,728
Long-term debt and capital lease obligations	44,418	56,593
Pension and postretirement benefits	27,170	28,135
Other deferred items and liabilities	49,825	52,858
Total liabilities	483,998	470,314
Commitments and contingencies		
Redeemable noncontrolling interest	6,128	6,648
Stockholders' equity		
Viad Corp stockholders' equity:		
Common stock, $1.50 par value, 200,000,000 shares authorized, 24,934,981 shares issued and outstanding	37,402	37,402

Additional capital	575,058	574,458
Retained earnings	113,381	65,836
Unearned employee benefits and other	234	218
Accumulated other comprehensive loss	(31,763)	(22,568)
Common stock in treasury, at cost, 4,601,494 and 4,518,099 shares, respectively	(230,944)	(226,215)
Total Viad stockholders’ equity	463,368	429,131
Non-redeemable noncontrolling interest	14,696	13,806
Total stockholders’ equity	478,064	442,937
Total Liabilities and Stockholders’ Equity	$ 968,190	$ 919,899

Refer to Notes to Condensed Consolidated Financial Statements.

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VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Revenue:				
Services	$300,087	$286,752	$860,358	$896,574
Products	58,076	52,347	138,910	133,106
Total revenue	358,163	339,099	999,268	1,029,680
Costs and expenses:				
Costs of services	254,638	245,757	792,775	808,304
Costs of products	46,974	46,077	122,529	121,508
Business interruption gain	(35)	(1,091)	(602)	(2,231)
Corporate activities	3,777	4,425	8,529	9,886
Interest income	(101)	(74)	(238)	(174)
Interest expense	2,608	2,117	7,031	6,281
Other expense	527	248	1,308	922
Restructuring charges	175	255	999	817
Impairment recoveries	—	(24,467)	(35)	(29,098)
Total costs and expenses	308,563	273,247	932,296	916,215
Income from continuing operations before income taxes	49,600	65,852	66,972	113,465
Income tax expense	10,806	20,010	15,282	32,929
Income from continuing operations	38,794	45,842	51,690	80,536
Income (loss) from discontinued operations	(246)	(101)	403	(408)
Net income	38,548	45,741	52,093	80,128
Net income attributable to non-redeemable noncontrolling interest	(1,287)	(1,084)	(890)	(747)
Net loss attributable to redeemable noncontrolling interest	128	—	289	—
Net income attributable to Viad	$37,389	$44,657	$51,492	$79,381
Diluted income (loss) per common share:				
Continuing operations attributable to Viad common stockholders	$1.84	$2.19	$2.49	$3.91
Discontinued operations attributable to Viad common stockholders	(0.01)	—	0.02	(0.02)
Net income attributable to Viad common stockholders	$1.83	$2.19	$2.51	$3.89
Weighted-average outstanding and potentially dilutive common shares	20,387	20,436	20,427	20,382
Basic income (loss) per common share:				
Continuing operations attributable to Viad common stockholders	$1.85	$2.19	$2.50	$3.91
Discontinued operations attributable to Viad common stockholders	(0.01)	—	0.02	(0.02)
Net income attributable to Viad common stockholders	$1.84	$2.19	$2.52	$3.89
Weighted-average outstanding common shares	20,145	20,166	20,187	20,130
Dividends declared per common share	$0.10	$0.10	$0.30	$0.30

Amounts attributable to Viad common stockholders				
Income from continuing operations	$37,635	$44,758	$51,089	$79,789
Income (loss) from discontinued operations	(246)	(101)	403	(408)
Net income	$37,389	$44,657	$51,492	$79,381

Refer to Notes to Condensed Consolidated Financial Statements.

VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Net income	$38,548	$45,741	$52,093	$80,128
Other comprehensive income (loss):				
Unrealized gains on investments, net of tax[1]	—	48	—	143
Unrealized foreign currency translation adjustments, net of tax[1]	3,340	9,115	(7,864)	18,820
Change in net actuarial gain, net of tax[1]	(1,570)	103	(721)	385
Change in prior service cost, net of tax[1]	186	(67)	6	(201)
Adoption of ASU 2016-01	—	—	(616)	—
Comprehensive income	40,504	54,940	42,898	99,275
Comprehensive income attributable to non-redeemable noncontrolling interest	(1,287)	(1,084)	(890)	(747)
Comprehensive loss attributable to redeemable noncontrolling interest	128	—	289	—
Comprehensive income attributable to Viad	$39,345	$53,856	$42,297	$98,528

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

VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities		
Net income	$52,093	$80,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,364	42,499
Deferred income taxes	3,182	318
(Income) loss from discontinued operations	(403)	408
Restructuring charges	999	817
Impairment recoveries	(35)	(29,098)
(Gains) losses on dispositions of property and other assets	(135)	465
Share-based compensation expense	5,056	9,484
Other non-cash items, net	3,553	3,603
Change in operating assets and liabilities (excluding the impact of acquisitions):		
Receivables	(21,289)	(25,966)
Inventories	(2,792)	(726)
Current contract costs	(11,928)	(6,122)
Accounts payable	12,972	18,998
Restructuring liabilities	(1,330)	(1,748)
Accrued compensation	(12,275)	(7,455)
Contract liabilities	28,045	9,742
Income taxes payable	(9,580)	16,058
Other assets and liabilities, net	11,113	3,238
Net cash provided by operating activities	101,610	114,643
Cash flows from investing activities		
Capital expenditures	(69,596)	(39,493)
Proceeds from insurance	—	31,570
Cash paid for acquired businesses, net	—	(1,661)
Proceeds from dispositions of property and other assets	1,320	734
Net cash used in investing activities	(68,276)	(8,850)
Cash flows from financing activities		
Proceeds from borrowings	101,336	60,574
Payments on debt and capital lease obligations	(113,429)	(128,808)
Dividends paid on common stock	(6,128)	(6,119)
Debt issuance costs	—	(5)
Common stock purchased for treasury	(10,240)	(1,272)
Proceeds from exercise of stock options	84	—
Net cash used in financing activities	(28,377)	(75,630)
Effect of exchange rate changes on cash and cash equivalents	(3,210)	2,418
Net change in cash and cash equivalents	1,747	32,581

Cash and cash equivalents, beginning of year	53,723	20,900
Cash and cash equivalents, end of period	$55,470	$53,481

Refer to Notes to Condensed Consolidated Financial Statements.

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VIAD CORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Overview and Basis of Presentation

Nature of Business

We are an international experiential services company with operations principally in the United States, Canada, the United Kingdom, continental Europe, and the United Arab Emirates. We are committed to providing unforgettable experiences to our clients and guests. We operate through three reportable business segments: GES U.S., GES International (collectively, “GES”), and Pursuit.

GES

GES is a global, full-service provider for live events. GES’ clients include event organizers and corporate brand marketers. Event organizers schedule and run the event from start to finish. Corporate brand marketers include exhibitors and domestic and international corporations that want to promote their brands, services and innovations, feature new products, and build business relationships. GES serves corporate brand marketers when they exhibit at shows and when GES is engaged to manage their global exhibit program or produce their proprietary corporate events.

Services and Products Offered

GES offers a full suite of services and products for event organizers and corporate brand marketers through three main lines of business:

- Core Services. GES provides official contracting services and products, including the design and production of experiences, material handling, rigging, electrical, and other on-site services.
- Audio-Visual. GES offers a variety of high-impact multi-media services and technology, including video and lighting production, digital studio services, entertainment services and talent coordination, projection mapping, and computer rental and support.
- Event Technology. GES offers a comprehensive range of event technology services, including event accommodation solutions, registration and data analytics, and event management tools.

Markets Served

GES provides the above services and products across four live event markets: Exhibitions, Conferences, Corporate Events, and Consumer Events (collectively, “Live Events”).

- Exhibitions facilitate business-to-business and business-to-consumer sales and marketing.
- Conferences facilitate attendee education and may also include an expo or trade show to further facilitate attendee education and to facilitate business-to-business and business-to-consumer sales and marketing.
- Corporate events facilitate attendee education of the sponsoring company’s products or product ecosystem.

- Consumer events entertain, educate, or create an experience, typically around a specific genre.

Pursuit

Pursuit is a collection of iconic natural and cultural destination travel experiences that enjoy perennial demand. Pursuit offers guests distinctive and world renowned experiences through its collection of unique hotels, lodges, recreational attractions, and transportation services.

Services and Products Offered

Pursuit comprises four lines of business: Attractions, including food and beverage services and retail operations; Hospitality, including food and beverage services and retail operations; Transportation; and Travel Planning. Services offered by these lines of business (or a subset of these) include accommodations, admissions, transportation, and travel planning. Products offered include food and beverage and retail.

Markets Served

Pursuit provides the above services and products across the following geographic markets:

- Banff Jasper Collection. The Banff Jasper Collection is a leading travel and tourism provider in the Canadian Rockies in Alberta, Canada with two lodging properties in Banff National Park, one lodging property in Jasper National Park, five world-class recreational attractions, food and beverage services, retail operations, sightseeing and transportation services.
- Alaska Collection. The Alaska Collection is a leading travel and tourism provider in Alaska with two lodging properties and a sightseeing excursion in Denali National Park and Preserve, a lodge in Talkeetna, Alaska's top-rated wildlife and glacier cruise, and two lodging properties located near Kenai Fjords National Park. The Alaska Collection also provides food and beverage services and retail operations.
- Glacier Park Collection. The Glacier Park Collection is an operator of seven lodging properties, 12 retail shops, and 11 dining outlets in and around Glacier National Park in Montana, and Waterton Lakes National Park in Alberta, Canada, with a leading share of rooms in that market.
- FlyOver:
  - FlyOver Canada, located in Vancouver, British Columbia, is a recreational attraction that provides a virtual flight ride experience that combines motion seating, spectacular media, and visual effects including wind, scents, and mist to give the unforgettable experience of flying across Canada.
  - FlyOver Iceland is a recreational attraction under construction in Reykjavik, Iceland that will provide a virtual flight ride experience over some of Iceland's most spectacular scenery and natural wonders with the same effects as FlyOver Canada. The new attraction is expected to open in 2019.

Basis of Presentation

Viad's accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these financial statements do not include all of the information required by GAAP or SEC rules and regulations for complete financial statements. These financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of the results for the full year. We have recast certain prior period amounts to conform to the current period presentation due to the adoption of new accounting standards. These unaudited condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 28, 2018 ("2017 Form 10-K").

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

Impact of Recent Accounting Pronouncements

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

Standard	Description	Date of adoption	Effect on the financial statements
Standards Not Yet Adopted			
ASU 2016-02, Leases (Topic 842)	The amendment requires lessees to recognize on their balance sheet a right-of-use asset and a lease liability for leases with lease terms greater than one year. The amendment requires additional disclosures about leasing arrangements, and previously allowed for only a modified retrospective approach to adoption. Subsequent to the issuance of ASU 2016-02, the FASB issued additional updates, which do not change the core principle of the guidance stated in ASU 2016-02. Rather, the updates provide additional (and optional) transition methods including the election under ASU 2018-11, which allows companies to not restate comparative periods when initially applying the transition requirements. Early adoption is permitted.	January 1, 2019	We are currently evaluating the potential impact the adoption of this new guidance will have on our financial position or results of operations including analyzing our existing operating leases. We do not expect our Consolidated Statement of Operations to be materially impacted. We expect the most significant impact will relate to facility and equipment leases, which are currently recorded as operating leases. Based on our leases in place as of September 30, 2018, we currently anticipate recognizing an additional right-of-use asset and lease liability on the balance sheet of approximately $60 million upon adoption of the standard on January 1, 2019. We expect to adopt ASU 2018-11, which allows companies to use an optional transition method under which a cumulative adjustment to retained earnings is recorded in the period of adoption and prior periods are not restated. We are continuing our assessment, which may identify other impacts.
ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20) Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans	The amendment modifies and clarifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Early adoption is permitted and is to be applied on a retrospective basis to all periods presented.	January 1, 2021	We are currently evaluating the potential impact of the adoption of this new guidance on our disclosures.
ASU 2018-15, Intangibles – Goodwill	The amendment aligns the requirements for capitalizing	January 1, 2020	We are currently evaluating the potential impact of the adoption of this new guidance on our

and Other – Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendment also requires an entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. Early adoption is permitted and may be applied on either a retrospective or prospective basis.		consolidated financial statements and related disclosures.

Standard	Description	Date of adoption	Effect on the financial statements
Standards Recently Adopted			
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	The standard established 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.	January 1, 2018	We adopted ASU 2014-09 and its related amendments (collectively, “Topic 606”) on January 1, 2018 using the modified retrospective transition method. We determined that the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings was not material (less than $0.2 million) and, therefore, we made no adjustment. The adoption of this standard did not have a material impact on our consolidated financial statements. The impact primarily related to the deferral of certain commissions which were previously expensed as incurred but are now capitalized and amortized over the period of contract performance, and the deferral of certain costs incurred in connection with trade shows which were previously expensed as incurred but are now capitalized and expensed upon the completion of the show. The new guidance resulted in expanded disclosures and processes to identify performance obligations. See additional transition disclosures immediately following this table and Note 2 – Revenue and Related Contract Costs and Contract Liabilities.
ASU 2016-01, Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities	The amendment includes a requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.	January 1, 2018	We adopted this guidance prospectively in the first quarter of 2018 and recorded a cumulative-effect adjustment of $0.6 million to increase beginning retained earnings.
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment	The amendment eliminates the requirement to estimate the implied fair value of goodwill if it is determined that the carrying amount of a reporting unit exceeds its fair value. Goodwill impairment will now be recognized by the amount by which a reporting unit’s carrying value exceeds its fair value, not to	January 1, 2018	We early adopted this new guidance on January 1, 2018 on a prospective basis. As a result, we expect the adoption to reduce the complexity surrounding the analysis of goodwill impairment during our annual goodwill impairment tests as of October 31, 2018, or if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value.

	exceed the carrying amount of goodwill. Early adoption was permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.		
ASU 2017-07, Compensation - Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	The amendment requires an employer to disaggregate the service cost components from the other components of net benefit cost. The service cost components are required to be presented in operating income and the other components of net benefit cost are required to be presented outside of operating income.	January 1, 2018	We adopted this new standard retrospectively on January 1, 2018. As a result, we recorded the nonservice cost component of net periodic benefit cost within other expense and reclassified from operating expenses (cost of services and corporate activities) to other expense $0.2 million for the three months ended September 30, 2017 and $0.9 million for the nine months ended September 30, 2017 to conform to current period presentation. For additional details on the impact this adoption had on our results of operations, see the disclosures immediately following this table.

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ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	The amendment addresses the effect of the Tax Cuts and Jobs Act (the "Tax Act") on items within accumulated other comprehensive income ("AOCI"). Under current GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in AOCI are adjusted, certain tax effects become stranded in AOCI. This amendment allows a reclassification from AOCI to retained earnings for stranded tax effects. Early adoption was permitted.	September 30, 2018	We early adopted this new standard during the third quarter of 2018. As a result, we reclassified the income tax effects of the Tax Act of $1.6 million from AOCI to retained earnings, with no net effect to total stockholders' equity. Refer to Note 16 – Income Taxes for additional information.
ASU 2018-05, Income Taxes (Topic 740) – Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118	This statement amends ASC 740 to incorporate the requirements of SEC Staff Accounting Bulletin No. 118, which provides guidance on accounting for the tax effects of the Tax Act for SEC registrants who do not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Act.	Upon issuance	We recognized the provisional tax impacts of the Tax Act in the fourth quarter of 2017. During the three months ended September 30, 2018, we recorded a tax benefit of $3.1 million to the provisional estimate included in the financial statements as of December 31, 2017 for the impact of the Tax Act. This amount is comprised of a reduction to our estimated taxes for the deemed mandatory repatriation of post-1986 undistributed foreign subsidiary earnings and profits and for the corporate tax rate reduction attributable to the return to provision adjustment for deferred taxes. We continue to anticipate finalizing our analysis during the fourth quarter of 2018. Refer to Note 16 – Income Taxes for additional information.

Prior to January 1, 2018, we presented revenue in our Condensed Consolidated Statements of Operations in three separate line items as follows:

(in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017

Revenue:		
Exhibition and event services	$ 198,868	$ 750,111
Exhibits and environments	33,251	119,988
Pursuit services	106,980	159,581
Total revenue	$ 339,099	$ 1,029,680

In connection with the adoption of Topic 606, we changed the presentation of revenue in our Condensed Consolidated Statements of Operations and now present total services revenue and total products revenue. As a result, we changed the prior reporting period to conform to the current period presentation as follows:

(in thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Revenue:		
Services	$ 286,752	$ 896,574
Products	52,347	133,106
Total revenue	$ 339,099	$ 1,029,680

As a result of the change in presentation of revenue in the Condensed Consolidated Statements of Operations, we also made the following conforming changes to the presentation of cost of services and cost of products. The following table also summarizes the impact of adopting ASU 2017-07 on our Condensed Consolidated Statements of Operations:

	Three Months Ended September 30, 2017			
(in thousands)	As Previously Reported	Reclassifications to Conform with Revenue Presentation	ASU 2017-07	As Newly Reported
Cost of services	$254,963	$ (9,007)	$ (199)	$245,757
Cost of products	$37,070	$ 9,007	$ —	$46,077
Corporate activities	$4,474	$ —	$ (49)	$4,425
Other expense	$—	$ —	$ 248	$248

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	Nine Months Ended September 30, 2017			
(in thousands)	As Previously Reported	Reclassifications to Conform with Revenue Presentation	ASU 2017-07	As Newly Reported
Cost of services	$813,456	$ (4,436)	$ (716)	$808,304
Cost of products	$117,072	$ 4,436	$ —	$121,508
Corporate activities	$10,092	$ —	$ (206)	$9,886
Other expense	$—	$ —	$ 922	$922

Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

Beginning January 1, 2018, revenue is measured based on a specified amount of consideration in a contract with a customer, net of commissions paid to customers and amounts collected on behalf of third parties. We recognize revenue when a performance obligation is satisfied by transferring control of a product or service to a customer.

GES' service revenue is primarily derived through its comprehensive range of services to event organizers and corporate brand marketers including Core Services, Audio-Visual, and Event Technology. GES' service revenue is earned over time over the duration of the exhibition, conference or corporate event, which generally lasts one to three days; however we use the practical expedient of recognizing service revenue at the close of the event when we have the right to invoice. GES' product revenue is derived from the build of exhibits and environments and graphics. GES' product revenue is recognized at a point in time upon delivery of the product.

Pursuit's service revenue is derived through its accommodations, admissions, transportation, and travel planning services. Pursuit's product revenue is derived through food and beverage and retail sales. Pursuit's revenue is recognized at the time services are performed or upon delivery of the product. Pursuit's service revenue is recognized over time as the customer simultaneously receives and consumes the benefits. Pursuit's product revenue is recognized at a point in time.

The impact of adopting Topic 606 on our unaudited Condensed Consolidated Statement of Operations was $1.0 million reduction to cost of services and $0.7 million increase to net income for the three months ended September 30, 2018 and $2.6 million reduction to cost of services and $1.9 million increase to net income for the nine months ended September 30, 2018.

Noncontrolling Interests

Non-redeemable noncontrolling interest represents the portion of equity in a subsidiary that is not attributable, directly or indirectly, to us. Our non-redeemable noncontrolling interest relates to the 20% equity ownership interest that we do not own in Glacier Park, Inc. We report non-redeemable noncontrolling interest within stockholders' equity in the Condensed Consolidated Balance Sheets. The amount of consolidated net income attributable to Viad and the non-redeemable noncontrolling interest is presented in the Condensed Consolidated Statements of Operations.

Noncontrolling interests with redemption features that are not solely within our control are considered redeemable noncontrolling interests. Our redeemable noncontrolling interest relates to our 54.5% equity ownership interest in Esja Attractions ehf. ("Esja"). The Esja shareholders agreement contains a put option that gives the minority Esja shareholders the right to sell (or "put") their Esja shares to us based on a calculated formula within a predefined term. This redeemable noncontrolling interest is considered temporary equity and we report it between liabilities and stockholders' equity in the Condensed Consolidated Balance Sheets. The amount of the net income or loss attributable to redeemable noncontrolling interests is recorded in the Condensed Consolidated Statements of Operations and the accretion of the redemption value is recorded as an adjustment to retained earnings and is included in our earnings (loss) per share. Refer to Note 20 – Redeemable Noncontrolling Interest for additional information.

Insurance Recoveries

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

Insurance proceeds allocated to business interruption gains are reported as cash flows from operating activities, and proceeds allocated to impairment recoveries are reported as cash flows from investing activities. Insurance proceeds used for capitalizable costs are classified as cash flows from investing activities, and proceeds used for non-capitalizable costs are classified as operating activities.

Note 2. Revenue and Related Contract Costs and Contract Liabilities

GES' performance obligations consist of services or product(s) outlined in a contract. While multi-year contracts are often signed for recurring events, the obligations for each occurrence are well defined and conclude upon the occurrence of each event. The obligations are typically the provision of services and/or sale of a product in connection with an exhibition, conference, or other event. Revenue for services is recognized when we have a right to invoice at the close of the exhibition, conference, or corporate event, which typically lasts one to three days. Revenue for consumer events is recognized over the duration of the event. Revenue for products is recognized either upon delivery to the customer's location, upon delivery to an event, or when we have the right to invoice, generally at the close of the exhibition, conference, or corporate event. Payment terms are generally within 30-60 days and contain no significant financing components.

Pursuit's performance obligations are short-term in nature. They include the provision of a hotel room, an attraction admission, a chartered or ticketed bus or van ride, the fulfillment of travel planning itineraries, and/or the sale of food, beverage, or retail products. Revenue is recognized when the service has been provided or the product has been delivered. When credit is extended, payment terms are generally within 30 days and contain no significant financing components.

Contract Liabilities

Customer deposits are typically received by GES and Pursuit prior to transferring the related product or service to the customer. These deposits are recorded as a contract liability and recognized as revenue upon satisfaction of the related contract performance obligation(s). GES also provides customer rebates and volume discounts to certain event organizers that are recorded as contract liabilities and are recognized as a reduction of revenue. These amounts are included in the Condensed Consolidated Balance Sheets under the caption "Contract liabilities."

Changes to contract liabilities are as follows:

(in thousands)	
Balance at January 1, 2018	$31,981
Cash additions	147,231
Revenue recognized	(120,477)

Foreign exchange translation adjustment	(475)
Balance at September 30, 2018	$58,260

Contract Costs

GES capitalizes certain incremental costs incurred in obtaining and fulfilling contracts. Capitalized costs principally relate to direct costs of materials and services incurred in fulfilling services of future exhibitions, conferences, and events, and also include up-front incentives and commissions incurred upon contract signing. Costs associated with preliminary contract activities (i.e. proposal activities) are expensed as incurred. Capitalized contract costs are expensed upon the transfer of the related goods or services and are included in cost of services or cost of products, as applicable. The deferred incremental costs of obtaining and fulfilling contracts are included in the Condensed Consolidated Balance Sheets under the captions “Current contract costs” and “Other investments and assets.” These amounts were previously reported in inventories under “Work in process.”

We elected to apply the following practical expedients related to performance obligations:

Not to disclose (i) the amount of consideration allocated to the remaining performance obligations (ii) an explanation of when we expect to recognize that amount as revenue as of December 31, 2017 and (iii) the value of unsatisfied performance obligations for contracts with an original duration of one year or less because the vast majority of our contract liabilities relate to future exhibitions and events that will occur within the next 12 months.

Changes to contract costs are as follows:

(in thousands)	
Balance at January 1, 2018	$16,878
Additions	53,580
Expenses	(40,641)
Cancelled	(109)
Foreign exchange translation adjustment	(539)
Balance at September 30, 2018	$29,169

As of September 30, 2018, capitalized contract costs consisted of $1.8 million to obtain contracts and $27.4 million to fulfill contracts. We did not recognize an impairment loss with respect to capitalized contract costs for the nine months ended September 30, 2018.

Disaggregation of Revenue

The following tables disaggregate GES and Pursuit revenue by major product line, timing of revenue recognition, and markets served:

GES

	Three Months Ended September 30, 2018			
(in thousands)	GES U.S.	GES International	Intersegment Eliminations	Total
Services:				
Core services	$154,640	$ 35,937	$ —	$190,577
Audio-visual	17,309	4,423	—	21,732
Event technology	4,874	1,745	—	6,619
Intersegment eliminations	—	—	(2,479)	(2,479)
Total services	176,823	42,105	(2,479)	216,449
Products:				
Core products	14,876	14,785	—	29,661
Total revenue	$191,699	$ 56,890	$ (2,479)	$246,110
Timing of revenue recognition:				
Services transferred over time	$176,823	$ 42,106	$ (2,479)	$216,450
Products transferred over time[1]	10,281	3,226	—	13,507
Products transferred at a point in time	4,595	11,558	—	16,153
Total revenue	$191,699	$ 56,890	$ (2,479)	$246,110

Markets:				
Exhibitions	$108,348	$ 41,925	$ —	$150,273
Conferences	41,367	4,918	—	46,285
Corporate events	34,093	8,190	—	42,283
Consumer events	7,891	1,857	—	9,748
Intersegment eliminations	—	—	(2,479)	(2,479)
Total revenue	$191,699	$ 56,890	$ (2,479)	$246,110

(1) GES' graphics product revenue is recognized over time as it is considered a part of the single performance obligation satisfied over time.

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	Nine Months Ended September 30, 2018			
(in thousands)	GES U.S.	GES International	Intersegment Eliminations	Total
Services:				
Core services	$511,322	$ 132,407	$ —	$643,729
Audio-visual	55,134	14,144	—	69,278
Event technology	23,443	7,866	—	31,309
Intersegment eliminations	—	—	(12,173)	(12,173)
Total services	589,899	154,417	(12,173)	732,143
Products:				
Core products	46,907	50,088	—	96,995
Total revenue	$636,806	$ 204,505	$ (12,173)	$829,138
Timing of revenue recognition:				
Services transferred over time	$589,899	$ 154,418	$ (12,173)	$732,144
Products transferred over time[1]	30,957	13,043	—	44,000
Products transferred at a point in time	15,950	37,044	—	52,994
Total revenue	$636,806	$ 204,505	$ (12,173)	$829,138
Markets:				
Exhibitions	$364,016	$ 150,623	$ —	$514,639
Conferences	163,782	28,805	—	192,587
Corporate events	89,347	21,620	—	110,967
Consumer events	19,661	3,457	—	23,118
Intersegment eliminations	—	—	(12,173)	(12,173)
Total revenue	$636,806	$ 204,505	$ (12,173)	$829,138

[1] GES' graphics product revenue is recognized over time as it is considered a part of the single performance obligation satisfied over time.

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Pursuit

(in thousands)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Services:		
Accommodations	$ 24,623	$ 35,358
Admissions	51,316	78,375
Transportation	7,602	14,292
Travel planning	651	1,450
Intersegment eliminations	(554)	(1,260)
Total services revenue	83,638	128,215
Products:		
Food and beverage	16,074	