VIAD CORP
Form 10-Q
May 03, 2019

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 March 31, 2019

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 1900	
Phoenix, Arizona	85004-4565
(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)

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $1.50 Par Value	VVI	New York Stock Exchange

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 April 26, 2019, there were 20,283,639 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)	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$43,473	$ 44,893
Accounts receivable, net of allowances for doubtful accounts of $1,366 and $1,288, respectively	134,513	108,936
Inventories	17,601	16,629
Current contract costs	22,987	18,017
Other current assets	32,745	25,486
Total current assets	251,319	213,961
Property and equipment, net	348,723	333,847
Other investments and assets	43,888	42,910
Operating lease right-of-use assets	59,671	—
Deferred income taxes	28,934	19,199
Goodwill	262,912	261,330
Other intangible assets, net	49,161	51,294
Total Assets	$1,044,608	$ 922,541
Liabilities and Stockholders’ Equity		
Current liabilities		
Accounts payable	$83,635	$ 71,927
Contract liabilities	66,094	33,476
Accrued compensation	17,224	22,668
Operating lease obligations	21,080	—
Other current liabilities	53,731	32,258
Current portion of debt and finance lease obligations	242,069	229,416
Total current liabilities	483,833	389,745
Long-term debt and finance lease obligations	6,795	705
Pension and postretirement benefits	26,528	26,636
Long-term operating lease obligations	42,098	—
Other deferred items and liabilities	45,361	48,991
Total liabilities	604,615	466,077
Commitments and contingencies		
Redeemable noncontrolling interest	5,662	5,909
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	571,833	575,339
Retained earnings	89,227	109,032
Unearned employee benefits and other	223	199
Accumulated other comprehensive loss	(43,110)	(47,975)
Common stock in treasury, at cost, 4,657,471 and 4,741,638 shares, respectively	(235,172)	(237,790)
Total Viad stockholders' equity	420,403	436,207
Non-redeemable noncontrolling interest	13,928	14,348
Total stockholders' equity	434,331	450,555
Total Liabilities and Stockholders' Equity	$1,044,608	$ 922,541

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 March 31, 2019	2018
Revenue:		
Services	$250,641	$245,548
Products	34,953	31,880
Total revenue	285,594	277,428
Costs and expenses:		
Costs of services	263,356	257,295
Costs of products	33,474	31,122
Business interruption gain	—	(190)
Corporate activities	1,833	2,217
Interest income	(98)	(84)
Interest expense	2,915	2,069
Other expense	455	238
Restructuring charges	688	162
Legal settlement	8,500	—
Total costs and expenses	311,123	292,829
Loss from continuing operations before income taxes	(25,529)	(15,401)
Income tax benefit	(7,595)	(4,638)
Loss from continuing operations	(17,934)	(10,763)
Income (loss) from discontinued operations	(287)	928
Net loss	(18,221)	(9,835)
Net loss attributable to non-redeemable noncontrolling interest	420	364
Net loss attributable to redeemable noncontrolling interest	24	84
Net loss attributable to Viad	$(17,777)	$(9,387)
Diluted loss per common share:		
Continuing operations attributable to Viad common stockholders	$(0.88)	$(0.51)
Discontinued operations attributable to Viad common stockholders	(0.01)	0.04
Net loss attributable to Viad common stockholders	$(0.89)	$(0.47)
Weighted-average outstanding and potentially dilutive common shares	20,076	20,207
Basic loss per common share:		
Continuing operations attributable to Viad common stockholders	$(0.88)	$(0.51)
Discontinued operations attributable to Viad common stockholders	(0.01)	0.04
Net loss attributable to Viad common stockholders	$(0.89)	$(0.47)
Weighted-average outstanding common shares	20,076	20,207
Dividends declared per common share	$0.10	$0.10

Amounts attributable to Viad common stockholders		
Loss from continuing operations	$(17,490)	$(10,315)
Income (loss) from discontinued operations	(287)	928
Net loss	$(17,777)	$(9,387)

Refer to Notes to Condensed Consolidated Financial Statements.

VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands)	Three Months Ended March 31, 2019	2018
Net loss	$(18,221)	$(9,835)
Other comprehensive income (loss):		
Unrealized foreign currency translation adjustments, net of tax[1]	4,780	(3,109)
Change in net actuarial loss, net of tax[1]	120	629
Change in prior service cost, net of tax[1]	(35)	(184)
Comprehensive loss	(13,356)	(12,499)
Comprehensive loss attributable to non-redeemable noncontrolling interest	420	364
Comprehensive loss attributable to redeemable noncontrolling interest	24	84
Comprehensive loss attributable to Viad	$(12,912)	$(12,051)

[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 STOCKHOLDERS' EQUITY

(Unaudited)

(in thousands)	Common Stock	Additional Capital	Retained Earnings	Unearned Employee Benefits and Other	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	Total Viad Equity	Non-Redeemable Non-Controlling Interest	Total Stockholders' Equity
Balance, December 31, 2018	$37,402	$575,339	$109,032	$199	$(47,975)	$(237,790)	$436,207	$14,348	$450,555
Net loss	—	—	(17,777)	—	—	—	(17,777)	(420)	(18,197)
Dividends on common stock ($0.10 per share)	—	—	(2,028)	—	—	—	(2,028)	—	(2,028)
Payment of payroll taxes on stock-based compensation through shares withheld	—	—	—	—	—	(2,905)	(2,905)	—	(2,905)
Employee benefit plans	—	(4,302)	—	—	—	5,522	1,220	—	1,220
Share-based compensation - equity awards	—	780	—	—	—	—	780	—	780
Unrealized foreign currency translation adjustment, net of tax	—	—	—	—	4,780	—	4,780	—	4,780
Amortization of net actuarial loss, net of tax	—	—	—	—	120	—	120	—	120
Amortization of prior service cost, net of tax	—	—	—	—	(35)	—	(35)	—	(35)
Other, net	—	16	—	24	—	1	41	—	41
Balance, March 31, 2019	$37,402	$571,833	$89,227	$223	$(43,110)	$(235,172)	$420,403	$13,928	$434,331

(in thousands)	Common Stock	Additional Capital	Retained Earnings	Unearned Employee Benefits and Other	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	Total Viad Equity	Non-Redeemable Non-Controlling Interest	Total Stockholders' Equity
Balance, December 31, 2017	$37,402	$574,458	$65,836	$218	$(22,568)	$(226,215)	$429,131	$13,806	$442,937
Net loss	—	—	(9,387)	—	—	—	(9,387)	(364)	(9,751)
Dividends on common stock ($0.10 per share)	—	—	(2,046)	—	—	—	(2,046)	—	(2,046)
Payment of payroll taxes on stock-based compensation through shares withheld	—	—	—	—	—	(868)	(868)	—	(868)
Employee benefit plans	—	(2,014)	—	—	—	3,137	1,123	—	1,123
Share-based compensation - equity awards	—	815	—	—	—	—	815	—	815
Unrealized foreign currency translation adjustment, net of tax	—	—	—	—	(3,109)	—	(3,109)	—	(3,109)
Amortization of net actuarial loss, net of tax	—	—	—	—	629	—	629	—	629
Amortization of prior service cost, net of tax	—	—	—	—	(184)	—	(184)	—	(184)
Adoption of ASU 2016-01	—	—	616	—	(616)	—	—	—	—
Other, net	—	(36)	(19)	(11)		(1)	(67)	—	(67)
Balance, March 31, 2018	$37,402	$573,223	$55,000	$207	$(25,848)	$(223,947)	$416,037	$13,442	$429,479

Refer to Notes to Condensed Consolidated Financial Statements.

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VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Three Months Ended March 31, 2019	2018
Cash flows from operating activities		
Net loss	$(18,221)	$(9,835)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,188	13,063
Deferred income taxes	(9,098)	(4,507)
(Income) loss from discontinued operations	287	(928)
Restructuring charges	688	162
Legal settlement	8,500	—
Gains on dispositions of property and other assets	(551)	(73)
Share-based compensation expense	2,206	717
Other non-cash items, net	1,041	1,803
Change in operating assets and liabilities (excluding the impact of acquisitions):		
Receivables	(25,545)	(13,255)
Inventories	(874)	70
Current contract costs	(4,838)	(9,211)
Accounts payable	12,868	5,354
Restructuring liabilities	(714)	(359)
Accrued compensation	(7,490)	(16,149)
Contract liabilities	32,379	20,888
Income taxes payable	6	(7,475)
Other assets and liabilities, net	4,188	16,316
Net cash provided by (used in) operating activities	8,020	(3,419)
Cash flows from investing activities		
Capital expenditures	(19,543)	(26,586)
Proceeds from dispositions of property and other assets	611	1,139
Net cash used in investing activities	(18,932)	(25,447)
Cash flows from financing activities		
Proceeds from borrowings	28,347	36,038
Payments on debt and finance lease obligations	(14,376)	(15,348)
Dividends paid on common stock	(2,028)	(2,046)
Payment of payroll taxes on stock-based compensation through shares withheld	(2,905)	(868)
Proceeds from exercise of stock options	—	84
Net cash provided by financing activities	9,038	17,860
Effect of exchange rate changes on cash and cash equivalents	454	(377)
Net change in cash and cash equivalents	(1,420)	(11,383)
Cash and cash equivalents, beginning of year	44,893	53,723
Cash and cash equivalents, end of period	$43,473	$42,340

Refer to Notes to Condensed Consolidated Financial Statements.

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 North America, GES EMEA (collectively, "GES"), and Pursuit.

GES

GES is a global, full-service live events company offering a comprehensive range of services to the world's leading brands and event organizers. 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 provides a full suite of services and products for event organizers and corporate brand marketers through the following 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 event services.
- Event Technology. GES offers a comprehensive range of event technology services, including event accommodation solutions, registration and data analytics, and event management tools.
- Audio-Visual. GES offers a variety of high-impact multi-media services and technology, including video production, lighting design, digital studio services, entertainment services and talent coordination, projection mapping, and computer rental and support.

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 inspiring and unforgettable travel experiences that include world-class recreational attractions, unique hotels and lodges, food and beverage, retail, sightseeing, and ground 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 admissions, accommodations, transportation, and travel planning. Products offered include food and beverage and retail operations.

Markets Served

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

- 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.
- 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.
- 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 the Glacier Park 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 currently being built 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 technology effects of wind, scents, and mist as FlyOver Canada. We are scheduled to open our new attraction in July 2019.
  - FlyOver Las Vegas is a newly announced expansion of our virtual flight ride theater concept into Las Vegas, Nevada. This new attraction will provide guests an exhilarating virtual flight experience over some of the most spectacular scenery and natural wonders of the American Southwest. We expect to open our new attraction in 2021.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were 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. 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, 2018, filed with the SEC on February 27, 2019 ("2018 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 2018-15, Intangibles – Goodwill 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	The amendment aligns the requirements for capitalizing 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.	January 1, 2020	We are currently evaluating the potential impact of the adoption of this new guidance on our consolidated financial statements and related disclosures.

Standard	Description	Date of adoption	Effect on the financial statements
Standards Recently Adopted			
ASU 2016-02, Leases (Topic 842)	The amendment increases transparency and comparability by requiring the recognition of a right-of-use asset and a lease liability on the balance sheet. The standard also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of cash flows arising from leases.	January 1, 2019	We adopted ASU 2016-02 and its related amendments (collectively, "Topic 842") on January 1, 2019 using the optional transition method. Under this method of adoption, a cumulative adjustment to retained earnings is recorded, if any, and prior periods are not restated. We determined there was no cumulative effect adjustment to retained earnings on January 1, 2019. The adoption of Topic 842 did not have a material impact to our Condensed Consolidated Statement of Operations. The most significant impact related to facility and equipment leases, which were previously recorded as operating leases. Upon adoption as of January 1, 2019, we recognized an additional right-of-use asset and lease liability of $59 million on the balance sheet. The existing deferred rent liabilities balance, resulting from historical straight-lining of operating leases, was reclassified upon adoption to reduce the measurement of leased assets. Refer to our Leases Significant Accounting Policy immediately following this table and Note 19 - Leases and Other for additional information.

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

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, Event Technology, and Audio-Visual. 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 recognize 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 admissions, accommodations, 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.

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 21 – Redeemable Noncontrolling Interest for additional information.

Leases

We adopted Topic 842 on January 1, 2019, which requires the recognition of a right-of-use ("ROU") asset and lease liability on the balance sheet, and requires lessees to classify leases as either finance or operating leases. The classification of the lease determines whether the lease expense is recognized on an effective interest method basis (finance lease) or on a straight-line basis (operating lease) over the lease term. In determining whether an agreement contains a lease, we consider if we have a right to control the use of the underlying asset during the lease term in exchange for an obligation to make lease payments arising from the lease. We recognize ROU assets and lease liabilities at commencement date, which is when the underlying asset is available for use to a lessee, based on the present value of lease payments over the lease term.

Our operating and finance leases are primarily facility and equipment leases. Our facility leases are comprised mainly of manufacturing facilities, sales and design facilities, offices, storage and/or warehouses, and truck marshaling yards. These facility leases generally have lease terms ranging up to 42 years. Our equipment leases are comprised mainly of vehicles, hardware, and office equipment, each with various lease terms.

We made the accounting policy election not to recognize ROU assets and lease liabilities for leases with a term of twelve months or less. We elected to apply the package of practical expedients permitted under Topic 842 transition guidance, which among other things, allowed us to carry forward our historical lease classifications. We also elected the practical expedient to not separate non-lease components from lease components, and payments associated with fixed non-lease components are included in measuring the ROU asset and lease liability.

If a lease contains a renewal option that is reasonably certain to be exercised, then the lease term includes the optional periods in measuring a ROU asset and lease liability. Variable leases and variable non-lease components are not included in the calculation of the ROU asset and corresponding lease liability. For facility leases, variable lease costs include the costs of common area maintenance, taxes, and insurance for which we pay our lessors an estimate that is adjusted to actual expense on a quarterly or annual basis depending on the underlying contract terms. These variable lease payments are expensed as incurred. Upon the adoption of Topic 842, our accounting for finance leases, previously referred to as capital leases, remains substantially unchanged from prior guidance. Our lease agreements do not contain any significant residual value guarantees or restrictive covenants.

Substantially all of our lease agreements do not specify an implicit borrowing rate, and as such, we utilize an incremental borrowing rate based on lease term and by country, in order to calculate the present value of our future lease payments. The discount rate represents a risk-adjusted rate on a secured basis, and is the expected rate at which we would borrow funds to satisfy the scheduled lease liability payment streams commensurate with the lease term and the country. On January 1, 2019, the discount rate used on existing leases at adoption was extrapolated based on the remaining lease term and the country using available data as of that date. For new or renewed leases starting in 2019, the discount rate is determined using available data at lease commencement and based on the lease term and country including any reasonably certain renewal periods.

We are also a lessor to third party tenants who either lease certain portions of facilities that we own or sublease certain portions of facilities that we lease. Lease income from owned facilities is recorded as rental income and sublease income from leased facilities is recorded against lease expense in the Condensed Consolidated Statements of Operations. All of our leases for which we are the lessor are classified as operating leases under Topic 842.

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 that we are serving, 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

GES and Pursuit typically receive customer deposits 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 captions "Contract liabilities" and "Other deferred items and liabilities."

Changes to contract liabilities are as follows:

(in thousands)	
Balance at December 31, 2018	$35,600
Cash additions	45,450
Revenue recognized	(14,945)
Foreign exchange translation adjustment	236
Balance at March 31, 2019	$66,341

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."

Changes to contract costs are as follows:

(in thousands)	
Balance at December 31, 2018	$21,478
Additions	18,484
Expenses	(13,295)
Cancelled	(3)
Foreign exchange translation adjustment	92
Balance at March 31, 2019	$26,756

As of March 31, 2019, capitalized contract costs consisted of $2.2 million to obtain contracts and $24.6 million to fulfill contracts. We did not recognize an impairment loss with respect to capitalized contract costs for the three months ended March 31, 2019 or 2018.

Disaggregation of Revenue

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

GES

(in thousands)	Three Months Ended March 31, 2019 GES North America[1]	GES EMEA[1]	Intersegment Eliminations	Total
Services:				
Core services	$179,873	$31,063	$ —	$210,936
Audio-visual	18,406	3,888	—	22,294
Event technology	8,763	2,953	—	11,716
Intersegment eliminations	—	—	(2,690)	(2,690)
Total services	207,042	37,904	(2,690)	242,256
Products:				
Core products	16,199	16,472	—	32,671
Total revenue	$223,241	$54,376	$ (2,690)	$274,927
Timing of revenue recognition:				
Services transferred over time	$207,042	$37,904	$ (2,690)	$242,256
Products transferred over time[2]	11,269	3,479	—	14,748
Products transferred at a point in time	4,930	12,993	—	17,923
Total revenue	$223,241	$54,376	$ (2,690)	$274,927
Markets:				
Exhibitions	$136,429	$45,655	$ —	$182,084
Conferences	47,862	2,982	—	50,844
Corporate events	32,787	5,545	—	38,332
Consumer events	6,163	194	—	6,357
Intersegment eliminations	—	—	(2,690)	(2,690)
Total revenue	$223,241	$54,376	$ (2,690)	$274,927

[1] During the first quarter of 2019, we realigned GES' organizational structure. As a result, we changed GES' reportable segments to reflect how our chief operating decision maker regularly reviews and makes decisions regarding the allocation of resources. Accordingly, GES' new reportable segments are GES North America and GES EMEA.

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

(in thousands)	Three Months Ended March 31, 2018 GES North America[(1)]	GES EMEA[(1)]	Intersegment Eliminations	Total
Services:				
Core services	$180,525	$28,985	$ —	$209,510
Audio-visual	17,084	3,168	—	20,252
Event technology	8,035	3,274	—	11,309
Intersegment eliminations	—	—	(3,278)	(3,278)
Total services	205,644	35,427	(3,278)	237,793
Products:				
Core products	16,420	13,493	—	29,913
Total revenue	$222,064	$48,920	$ (3,278)	$267,706
Timing of revenue recognition:				
Services transferred over time	$205,644	$35,427	$ (3,278)	$237,793
Products transferred over time[(2)]	11,369	3,329	—	14,698
Products transferred at a point in time	5,051	10,164	—	15,215
Total revenue	$222,064	$48,920	$ (3,278)	$267,706
Markets:				
Exhibitions	$145,818	$39,935	$ —	$185,753
Conferences	39,089	5,388	—	44,477
Corporate events	30,903	3,402	—	34,305
Consumer events	6,254	195	—	6,449
Intersegment eliminations	—	—	(3,278)	(3,278)
Total revenue	$222,064	$48,920	$ (3,278)	$267,706

(1) During the first quarter of 2019, we realigned GES' organizational structure. As a result, we changed GES' reportable segments to reflect how our chief operating decision maker regularly reviews and makes decisions regarding the allocation of resources. Accordingly, GES' new reportable segments are GES North America and GES EMEA.

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

Pursuit

(in thousands)	Three Months Ended March 31, 2019	2018
Services:		
Admissions	$3,525	$3,579
Accommodations	2,418	1,705
Transportation	1,995	2,369
Travel planning	632	308
Intersegment eliminations	(185)	(206)
Total services revenue	8,385	7,755
Products:		
Food and beverage	1,364	1,219
Retail operations	918	748
Total products revenue	2,282	1,967
Total revenue	$10,667	$9,722
Timing of revenue recognition:		
Services transferred over time	$8,385	$7,755
Products transferred at a point in time	2,282	1,967
Total revenue	$10,667	$9,722
Markets:		
Banff Jasper Collection	$7,870	$7,089
Alaska Collection	180	213
Glacier Park Collection	823	626
FlyOver	1,794	1,794
Total revenue	$10,667	$9,722

Note 3. Share-Based Compensation

The following table summarizes share-based compensation expense:

(in thousands)	Three Months Ended March 31, 2019	2018
Performance unit incentive plan (“PUP”)	$1,423	$194
Restricted stock	693	503
Restricted stock units	90	20

Share-based compensation before income tax benefit	2,206	717
Income tax benefit	(558)	(181)
Share-based compensation, net of income tax benefit	$1,648	$536

We did not record any share-based compensation expense through restructuring charges during the three months ended March 31, 2019 or 2018.

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

	PUP Awards		Restricted Stock		Restricted Stock Units	
		Weighted-Average Grant Date		Weighted-Average Grant Date		Weighted-Average Grant Date
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Balance at December 31, 2018	239,809	$ 40.65	176,769	$ 40.87	12,090	$ 39.04
Granted	73,020	$ 58.25	54,475	$ 57.80	5,025	$ 56.81
Vested	(95,309)	$ 26.98	(80,859)	$ 31.78	(5,377)	$ 26.98
Forfeited	—	$ —	(936)	$ 43.75	—	$ —
Balance at March 31, 2019	217,520	$ 52.55	149,449	$ 51.93	11,738	$ 52.17

Viad Corp Omnibus Incentive Plan

We grant share-based compensation awards to our officers, directors, and certain key employees pursuant to the 2017 Viad Corp Omnibus Incentive Plan (the "2017 Plan"). The 2017 Plan has a 10-year life and provides for the following types of awards: (a) incentive and non-qualified stock options; (b) restricted stock and restricted stock units; (c) performance units or performance shares; (d) stock appreciation rights; (e) cash-based awards; and (f) certain other stock-based awards. In June 2017, we registered 1,750,000 shares of common stock issuable under the 2017 Plan. As of March 31, 2019, there were 1,580,999 shares available for future grant under the 2017 Plan.

PUP Awards

The vesting of PUP award shares is based upon achievement of certain performance-based criteria. The performance period of the shares is three years.

During the three months ended March 31, 2019, we granted PUP awards with a grant date fair value of $4.3 million of which $1.7 million are payable in shares. Liabilities related to PUP awards were $2.7 million as of March 31, 2019 and $7.0 million as of December 31, 2018. In 2019, PUP awards granted in 2016 vested and we paid $5.6 million in cash and $3.4 million in shares. In 2019, we withheld 25,771 shares for $1.5 million related to tax withholding requirements on vested PUP awards paid in shares. In 2018, PUP awards granted in 2015 vested and we distributed cash payouts of $5.9 million.

Restricted Stock

As of March 31, 2019, the unamortized cost of outstanding restricted stock awards was $4.9 million, which we expect to recognize over a weighted-average period of approximately 1.7 years. We repurchased 24,067 shares for $1.4 million during the three months ended March 31, 2019 and 16,362 shares for $0.9 million during the three months ended March 31, 2018 related to tax withholding requirements on vested share-based awards.

Restricted Stock Units

Aggregate liabilities related to restricted stock units were $0.2 million as of March 31, 2019 and $0.4 million as of December 31, 2018. In February 2019, the 2016 restricted stock units vested and we distributed $0.3 million in cash payouts. In February 2018, the 2015 restricted stock units vested and we distributed $0.2 million in cash payouts.

Stock Options

The following table summarizes stock option activity:

	Shares	Weighted-Average Exercise Price
Options outstanding and exercisable at December 31, 2018	58,689	$ 16.62
Exercised	—	$ —
Options outstanding and exercisable at March 31, 2019	58,689	$ 16.62

Note 4. Acquisition of Business

2018 Acquisition

Maligne Canyon Restaurant

In March 2018, we acquired the Maligne Canyon Restaurant and Gift Shop for total cash consideration of $6.0 million Canadian dollars (approximately $4.6 million U.S. dollars). Transaction costs associated with the acquisition were $24 thousand in 2018, which are included in "Cost of services" in the Condensed Consolidated Statements of Operations. These assets have been included in the consolidated financial statements from the date of acquisition.

Note 5. Inventories

Inventories, which consist primarily of exhibit design and construction materials and supplies, as well as retail inventory, are stated at the lower of cost (first-in, first-out and specific identification methods) or net realizable value.

The components of inventories consisted of the following:

(in thousands)	March 31, 2019	December 31, 2018
Raw materials	$ 12,784	$ 12,368
Finished goods	4,817	4,261
Inventories	$ 17,601	$ 16,629

Note 6. Other Current Assets

Other current assets consisted of the following:

(in thousands)	March 31, 2019	December 31, 2018
Income tax receivable	$ 12,609	$ 10,886
Prepaid vendor payments	4,910	4,492
Prepaid software maintenance	4,732	4,010