

VIAD CORP

FORM 10-Q (Quarterly Report)

Filed 5/12/1994 For Period Ending 3/31/1994

| | |
|-------------|---|
| Address | 1850 NORTH CENTRAL AVE SUITE 800 PHOENIX, Arizona 85004-4545 |
| Telephone | (602) 207-4000 |
| CIK | 0000884219 |
| Industry | Business Services |
| Sector | Services |
| Fiscal Year | 12/31 |

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended March 31, 1994
Commission file number 001-11015

THE DIAL CORP

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| DELAWARE (State or Other Jurisdiction of Incorporation or Organization) | 36-1169950 (I.R.S. Employer Identification No.) |
| DIAL TOWER, PHOENIX, ARIZONA (Address of Principal Executive Offices) | 85077 (Zip Code) |

Registrant's Telephone Number, Including Area Code (602)-207-4000

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of April 30, 1994, 46,015,567 shares of Common Stock (\$1.50 par value) were outstanding.

THE DIAL CORP

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PART I FINANCIAL INFORMATION
 Item 1. Financial Statements
 THE DIAL CORP
 CONSOLIDATED BALANCE SHEET

| (000 omitted) | March 31, 1994 | December 31, 1993 |
|--|-------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,211 | \$ 10,659 |
| Receivables, less allowance of \$24,327 and \$22,597 | 236,054 | 199,996 |
| Inventories | 236,069 | 216,837 |
| Deferred income taxes | 45,322 | 46,373 |
| Other current assets | 42,206 | 43,082 |
| | ----- | ----- |
| | 560,862 | 516,947 |
| Funds and agents' receivables restricted for payment service obligations, after eliminating \$80,000 and 65,000 invested in Dial commercial paper | 479,941 | 535,657 |
| | ----- | ----- |
| Total current assets | 1,040,803 | 1,052,604 |
| Investments restricted for payment service obligations | 638,575 | 574,094 |
| Property and equipment | 782,797 | 740,724 |
| Other investments and assets | 72,151 | 59,757 |
| Deferred income taxes | 129,594 | 124,096 |
| Intangibles | 780,699 | 729,813 |
| | ----- | ----- |
| | \$3,444,619 | \$3,281,088 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|-------------|-------------|
| Current liabilities: | | |
| Short-term bank loans | \$ 323 | \$ 8,935 |
| Accounts payable | 205,001 | 248,975 |
| Accrued compensation | 59,526 | 69,060 |
| Other current liabilities | 303,694 | 272,430 |
| Current portion of long-term debt | 2,223 | 2,295 |
| | ----- | ----- |
| Payment service obligations | 570,767 | 601,695 |
| | 1,195,585 | 1,147,063 |
| | ----- | ----- |
| Total current liabilities | 1,766,352 | 1,748,758 |
| Long-term debt | 784,762 | 624,662 |
| Pensions and other benefits | 297,239 | 295,656 |
| Other deferred items and insurance reserves | 96,384 | 99,834 |
| Minority interests | 23,050 | 35,866 |
| \$4.75 Redeemable preferred stock | 6,626 | 6,624 |
| Common stock and other equity: | | |
| Common stock, \$1.50 par value, 200,000,000 shares authorized, 48,554,362 shares issued | 72,832 | 72,832 |
| Additional capital | 384,528 | 378,814 |
| Retained income | 309,778 | 304,481 |
| Cumulative translation adjustments | (13,546) | (9,889) |
| Unearned employee benefits related to: | | |
| Employee Equity Trust | (154,462) | (158,429) |
| Guarantee of ESOP debt | (31,375) | (31,511) |
| Unrealized loss on securities available for sale | (10,382) | |
| Common stock in treasury, at cost, 2,541,719 and 2,536,354 shares | (87,167) | (86,610) |
| | ----- | ----- |
| | 470,206 | 469,688 |
| | ----- | ----- |
| | \$3,444,619 | \$3,281,088 |
| | ===== | ===== |

See notes to consolidated financial statements.

THE DIAL CORP
STATEMENT OF CONSOLIDATED INCOME

| Three months ended March 31, | 1994 | 1993 |
|--|-----------|------------|
| | ----- | ----- |
| (000 omitted) | | |
| Revenues | \$784,902 | \$ 638,056 |
| | ----- | ----- |
| Costs and expenses: | | |
| Cost of sales and services | 731,963 | 595,088 |
| Unallocated corporate expense and other items, net | 12,586 | 12,480 |
| Interest expense | 12,369 | 13,369 |
| Minority interests | (100) | (158) |
| | ----- | ----- |
| | 756,818 | 620,779 |
| | ----- | ----- |
| Income before income taxes | 28,084 | 17,277 |
| Income taxes | 10,874 | 6,118 |
| | ----- | ----- |
| Income from continuing operations | 17,210 | 11,159 |
| Income from discontinued operations-- Transporation Manufacturing and Service Parts Group (sold August 12, 1993) | | 3,472 |
| | ----- | ----- |
| Net income | \$ 17,210 | \$ 14,631 |
| | ===== | ===== |
| Income per common share (dollars): | | |
| Continuing operations | \$ 0.39 | \$ 0.25 |
| Discontinued operations | | 0.08 |
| | ----- | ----- |
| Net income per common share | \$ 0.39 | \$ 0.33 |
| | ===== | ===== |
| Dividend declared per common share (dollars) | \$ 0.28 | \$ 0.28 |
| | ===== | ===== |
| Average outstanding common and equivalent shares (000 omitted) | 43,018 | 42,927 |
| | ===== | ===== |

STATEMENT OF RETAINED INCOME

| Three months ended March 31, | 1994 | 1993 |
|---|-----------|------------|
| | ----- | ----- |
| (000 omitted) | | |
| Balance, beginning of year | \$304,481 | \$ 234,655 |
| Net income | 17,210 | 14,631 |
| Dividends on common and preferred stock | (12,121) | (12,091) |
| Other | 208 | 107 |
| | ----- | ----- |
| Balance, end of period | \$309,778 | \$ 237,302 |
| | ===== | ===== |

See notes to consolidated financial statements.

THE DIAL CORP
STATEMENT OF CONSOLIDATED CASH FLOWS

| Three months ended March 31, | 1994 | 1993 |
|--|-----------|-----------|
| | ----- | ----- |
| (000 omitted) | | |
| Cash flows provided (used) by operating activities: | | |
| Net income (loss) | \$ 17,210 | \$ 14,631 |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operations: | | |
| Depreciation and amortization | 26,926 | 24,143 |
| Deferred income taxes | 3,003 | 5,043 |
| Income from discontinued operations | | (3,472) |
| Gain on sales of businesses and property | (270) | (272) |
| Other noncash items, net | 2,029 | 5,152 |
| Change in operating assets and liabilities: | | |
| Receivables | (36,049) | 19,310 |
| Inventories | (18,908) | (29,035) |
| Funds and agents' receivables and payment service obligations, net | 109,402 | 57,218 |
| Accounts payable and accrued compensation | (54,779) | (57,016) |
| Other current liabilities | 34,778 | 14,201 |
| Other assets and liabilities, net | (21,627) | (21,237) |
| | ----- | ----- |
| Net cash provided by operating activities | 61,715 | 28,666 |
| | ----- | ----- |
| Cash flows provided (used) by investing activities: | | |
| Capital expenditures | (16,997) | (20,862) |
| Acquisitions of businesses and other assets, net of cash acquired | (109,269) | (666) |
| Proceeds from sales and maturities of investments restricted for payment service obligations | 111,092 | 26,756 |
| Purchases of investments restricted for payment service obligations | (191,421) | (99,481) |
| Proceeds from sales of businesses and property | 850 | 1,268 |
| Investment in and advances from discontinued operations, net | | 40,648 |
| Other, net | (6) | (3) |
| | ----- | ----- |
| Net cash used by investing activities | (205,751) | (52,340) |
| | ----- | ----- |
| Cash flows provided (used) by financing activities: | | |
| Proceeds from long-term borrowings | 70,000 | |
| Payments on long-term borrowings | (32) | (764) |
| Net change in short-term borrowings | 81,419 | 40,823 |
| Dividends on common and preferred stock | (12,121) | (12,091) |
| Minority portion of subsidiary's special dividend | (9,761) | |
| Proceeds from sales of treasury stock | 8,668 | 7,881 |
| Net change in receivables sold | | (15,000) |
| Cash payments on interest rate swaps | (3,585) | (3,134) |
| | ----- | ----- |
| Net cash provided by financing activities | 134,588 | 17,715 |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (9,448) | (5,959) |
| Cash and cash equivalents, beginning of year | 10,659 | 43,917 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 1,211 | \$ 37,958 |
| | ===== | ===== |

See notes to consolidated financial statements.

THE DIAL CORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - Basis of Preparation

This information should be read in connection with the financial statements set forth in The Dial Corp Annual Report to Shareholders for the year ended December 31, 1993.

Accounting policies utilized in the preparation of the financial information herein presented are the same as set forth in The Dial Corp's annual financial statements except as modified for interim accounting policies which are within the guidelines set forth in Accounting Principles Board Opinion No. 28. The interim consolidated financial information is unaudited. In the opinion of management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly the financial position as of March 31, 1994, and the results of operations and cash flows for the three months ended March 31, 1994 and 1993, have been included. Interim results of operations are not necessarily indicative of the results of operations for the full year.

Certain reclassifications have been made to prior year's financial statements to conform to 1994 classifications.

NOTE B - Investments Restricted for Payment Service Obligations

On January 1, 1994, The Dial Corp adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires the classification of securities at acquisition into one of three categories: held to maturity, available for sale, or trading--with different reporting requirements for each classification.

At March 31, 1994, investments restricted for payment service obligations include securities having a fair market value of \$549.0 million which were classified as "Available for Sale", and the after-tax adjustment necessary to mark them to market reduced stockholders' equity by \$10.4 million. This adjustment had no effect on the current results of operations. The \$90.0 million (\$87.5 million fair value) balance of investments restricted for payment service obligations was classified as "Held to Maturity" and are reported at amortized cost.

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NOTE C - Other Matters

At March 31, 1994 and December 31, 1993, The Dial Corp and subsidiaries reclassified \$315 million and \$225 million, respectively, of short-term borrowings, supported by unused long-term revolving credit agreements, as long-term debt.

NOTE D - Income Taxes

A reconciliation of the provision for income taxes and the amount that would be computed using statutory federal income tax rates on income before income taxes for the three months ended March 31, is as follows:

| | 1994 | 1993 |
|---|---------------|----------|
| | ----- | ----- |
| | (000 omitted) | |
| Computed income taxes at statutory federal income tax rate of 35% and 34% | \$ 9,829 | \$ 5,874 |
| Nondeductible goodwill amortization | 1,028 | 783 |
| Minority interests | (35) | (54) |
| State income taxes | 1,775 | 1,812 |
| Foreign tax differences | 123 | (75) |
| Tax-exempt income | (984) | (348) |
| Adjustment to estimated annual effective rate | (1,000) | (1,500) |
| Other, net | 138 | (374) |
| | ----- | ----- |
| | \$ 10,874 | \$ 6,118 |
| | ===== | ===== |

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NOTE E - Supplementary Information--Revenues and Operating Income

Three months ended March 31,

| Revenues | | Operating Income | |
|----------|------|------------------|------|
| ----- | | ----- | |
| 1994 | 1993 | 1994 | 1993 |

| | (000 omitted) | | | |
|--|---------------|------------|-----------|-----------|
| Consumer Products | \$ 330,340 | \$ 293,183 | \$ 30,152 | \$ 25,659 |
| Services: | | | | |
| Airline Catering and Other Food Services | 172,183 | 143,584 | 7,259 | 6,411 |
| Convention Services | 127,671 | 68,112 | 12,392 | 5,988 |
| Travel and Leisure and Payment Services | 154,708 | 133,177 | 3,136 | 4,910 |
| Total Services (1) | 454,562 | 344,873 | 22,787 | 17,309 |
| | \$ 784,902 | \$ 638,056 | 52,939 | 42,968 |
| | ===== | ===== | | |
| Unallocated corporate expense and other items, net | | | (12,586) | (12,480) |
| | | | \$ 40,353 | \$ 30,488 |
| | | | ===== | ===== |

(1) Dial's payment services subsidiary has been investing increasing amounts in tax exempt securities. On a fully taxable equivalent basis, revenues and operating income would be higher by \$1,514,000 for the 1994 quarter and \$551,000 for the 1993 quarter.

NOTE F - Subsequent Event

On May 10, 1994, the Board of Directors declared a two for one stock split to be paid on July 1, 1994, to shareholders of record as of June 1, 1994. The effect of the stock split has not been reflected in the financial information presented herein.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results:

There were no material changes in the nature of The Dial Corp's business, nor were there any other changes in the general characteristics of its operations as described and discussed in the first paragraph of the results section of Management's Discussion and Analysis of Results of Operations and Financial Condition presented in The Dial Corp's Annual Report to Shareholders for the year ended December 31, 1993.

In the first quarter of 1994, revenues were \$784.9 million, compared to \$638.1 million in the same period last year.

Income from continuing operations and net income was \$17.2 million or \$0.39 per share. This was a per share increase of 56 percent over 1993's income from continuing operations of \$11.2 million or \$0.25 per share, and an increase of 18 percent from 1993's net income of \$14.6 million or \$0.33 per share.

Comparison of First Quarter of 1994 with First Quarter of 1993:

Consumer Products

The Consumer Products Group's revenues were up \$37.2 million, or 13 percent from that in the 1993 first quarter. Operating income was up \$4.5 million, or 18 percent over 1993 amounts.

Skin care division revenues and operating income decreased \$4.3 million and \$2.2 million, respectively, from the first quarter of 1993, as the high volume of sales made in late 1993 reduced first quarter 1994 trade demand.

Food division revenues decreased \$1.7 million from those in the first quarter of 1993, due primarily to volume decreases in the microwaveable product line. Operating income increased \$395,000 from that in the prior year due to lower manufacturing costs.

The household division revenues and operating income increased \$27.4 million and \$3.3 million, respectively, benefiting from the Renuzit acquisition completed in May of 1993.

Revenues and operating income for the laundry division increased \$14.0 million and \$1.4 million, respectively, with Purex liquid detergents continuing to lead the group.

International division revenues and operating income increased \$1.7 million and \$1.5 million, respectively, from those in the first quarter of 1993. Operating results in 1993 had been negatively impacted by expansion and product introduction costs.

Services

Combined Services revenues increased \$109.7 million, or 32 percent from that of the first quarter of 1993, while operating income increased \$5.5 million, or 32 percent over last year's results. Results were aided by the impact of 1993 acquisitions of convention services businesses and the first quarter phase-in of the United Airlines flight kitchens, although the phase-in will not be fully completed until late May. On a fully taxable equivalent basis, operating income increased by 36 percent, as Dial's payment services subsidiary has been investing increasing amounts in tax-exempt securities which have lower pre-tax yields but produce equal or better income on an after-tax basis.

Airline Catering and Other Food Services. Airline Catering and Other Food Service revenues increased \$28.6 million, or 20 percent over 1993 operations. Operating income increased \$848,000, or 13 percent as the planned phase-in of United Airlines flight kitchens began. Operating income did not increase at the same rate as revenues because it takes several months of operations for newly staffed kitchens to achieve normal efficiency.

Convention Services. Convention Services revenues increased \$59.6 million, or 87 percent while operating income increased \$6.4 million, or 107 percent from 1993 results. Improved results were due to the new businesses acquired in 1993 and the operating efficiencies achieved with the merged operations. In addition, several major shows, which in last year's first quarter had rotated out of areas served by Convention Services, returned this year.

Travel and Leisure and Payment Services. Revenues for the Travel and Leisure and Payment Services Group increased \$21.5 million or 16 percent, while operating income declined \$1.8 million or 36 percent from the 1993 quarter.

Revenues of the transportation services companies decreased \$2.4 million as increased charter and courier express revenues were offset by a decline in passenger revenues. Ongoing cost control programs contributed to a \$207,000 improvement in operating results.

Cruise revenues increased \$2.3 million over 1993, when one vessel had a four week drydock period. However, a number of cost factors, including timing issues, caused a \$3.0 million increase in seasonal operating loss.

Duty Free and shipboard concession revenues increased by \$13.0 million due primarily to new business. Operating income increased by \$1.4 million over that of the 1993 period which had been impacted by start-up costs associated with new business.

Payment service revenues and operating income increased \$4.2 million and \$140,000 from 1993's results. On a fully taxable equivalent basis, revenues and operating income would be higher by \$1.5 million for the 1994 quarter and \$551,000 for the 1993 quarter resulting in a \$5.2 million increase in revenues and a \$1.2 million increase in operating income.

Unallocated Corporate Expense and Other Items, Net Unallocated corporate expense and other items, net, increased just under one percent from that of the first quarter of 1993.

Interest Expense

Interest expense was down \$1.0 million from the first quarter of 1993. The prepayment of certain high-coupon, fixed-rate debt at the end of the third quarter of 1993 contributed to the decline. Increased debt levels primarily due to the first quarter payments for the United Airlines kitchens offset some of the debt restructuring savings.

Liquidity and Capital Resources:

The Dial Corp's total debt at March 31, 1994 was \$787 million compared to \$636 million at December 31, 1993. The debt to capital ratio at March 31, 1994 was 0.61 to 1 compared with 0.55 to 1 at December 31, 1993. The increase in debt was primarily attributable to previously announced acquisitions made during the quarter together with an increase in working capital.

There were no other material changes in The Dial Corp's financial condition nor were there any substantive changes relative to matters discussed in the Liquidity and Capital Resources section of Management's Discussion and Analysis of Results of Operations and Financial Condition as presented in the The Dial Corp Annual Report to Shareholders for the year ended December 31, 1993.

PART II OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a)The annual meeting of stockholders of The Dial Corp was held May 10, 1994.

(b)Not applicable--(i) proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934, (ii) there was no solicitation in opposition to management's nominees as listed in the proxy statement, and (iii) all such nominees were elected.

(c)Matters voted upon at the annual meeting for which proxies were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934:

1. The election of Directors as follows:

| | |
|-----------------------|------------|
| Thomas L. Gossage | |
| Affirmative Vote..... | 39,262,292 |
| Against..... | 0 |
| Withheld..... | 409,538 |
| Abstentions..... | 0 |
| Broker non-votes..... | 0 |

| | |
|-----------------------|------------|
| Dennis c. Stanfill | |
| Affirmative Vote..... | 39,257,910 |
| Against..... | 0 |
| Withheld..... | 413,920 |
| Abstentions..... | 0 |
| Broker non-votes..... | 0 |

| | |
|-----------------------|------------|
| John W. Teets | |
| Affirmative Vote..... | 39,226,019 |
| Against..... | 0 |
| Withheld..... | 445,811 |
| Abstentions..... | 0 |
| Broker non-votes..... | 0 |

2. The approval of a Management Incentive Plan for the Corporation.

| | |
|-----------------------|------------|
| Affirmative Vote..... | 37,228,712 |
| Against..... | 1,602,538 |
| Withheld..... | 0 |
| Abstentions..... | 840,580 |
| Broker non-votes..... | 0 |

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3. The approval of a Performance Unit Incentive Plan for the Corporation.

| | |
|-----------------------|------------|
| Affirmative Vote..... | 37,259,764 |
| Against..... | 1,594,929 |
| Withheld..... | 0 |
| Abstentions..... | 817,137 |
| Broker non-votes..... | 0 |

4. The appointment of Deloitte & Touche to audit the accounts of Dial and its subsidiaries for the fiscal year 1994.

| | |
|-----------------------|------------|
| Affirmative Vote..... | 39,320,268 |
| Against..... | 86,957 |
| Withheld..... | 0 |
| Abstentions..... | 264,605 |
| Broker non-votes..... | 0 |

Item 6. Exhibits and Reports on Form 8-K

(a)Exhibit No. 11 - Statement Re Computation of Per Share Earnings.

(b)No Reports on Form 8-K have been filed by the registrant during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE DIAL CORP

(Registrant)

May 11, 1994

*By /s/ Richard C. Stephan
Richard C. Stephan
Vice President-Controller
(Chief Accounting Officer
and Authorized Officer)*

THE DIAL CORP
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
(000 omitted)

| | Three months ended March 31, | |
|--|---------------------------------|-----------|
| | 1994 | 1993 |
| Primary: | | |
| Net income | \$17,210 | \$ 14,631 |
| Less: Preferred stock dividends | (280) | (281) |
| | ----- | ----- |
| | \$16,930 | \$ 14,350 |
| | ===== | ===== |
| Average common shares outstanding before common equivalents | 42,218 | 41,975 |
| Common equivalent stock options | 800 | 952 |
| | ----- | ----- |
| Average common and equivalent shares | 43,018 | 42,927 |
| | ===== | ===== |
| Net income per share (dollars) | \$ 0.39 | \$ 0.33 |
| | ===== | ===== |

| | Three months ended March 31, | | | |
|--|------------------------------|----------|------------------|-----------|
| | 1994 | | 1993 | |
| Fully Diluted: | Common Shares | Income | Common Shares | Income |
| | ----- | ----- | ----- | ----- |
| Average common and equivalent shares and net income per above | 43,018 | \$16,930 | 42,927 | \$ 14,350 |
| Common equivalent stock options | ----- | ----- | 89 | ----- |
| | 43,018 | \$16,930 | 43,016 | \$ 14,350 |
| | ===== | ===== | ===== | ===== |
| Net income per share (dollars) | | \$ 0.39 | | \$ 0.33 |
| | | ===== | | ===== |

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