

VIAD CORP
Form 10-Q
August 07, 2006

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

(Mark one)

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from _____ to _____

Commission File Number: 001-11015

VIAD CORP

(Exact name of registrant as specified in its charter)

Delaware

36-1169950

(State or other jurisdiction of incorporation or organization)

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

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

85004-4545

(Address of principal executive offices)

(Zip Code)

(602) 207-4000

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of July 31, 2006, 21,648,596 shares of common stock (\$1.50 par value) were outstanding.

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VIAD CORP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | June 30, 2006 | December 31, 2005 |
|--|--|------------------------------|
| | (in thousands, except share data) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 160,793 | \$ 152,601 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,814 and \$1,400, respectively | 70,286 | 56,752 |
| Inventories | 41,213 | 37,853 |
| Deferred income taxes | 23,383 | 28,155 |
| Other current assets | 10,949 | 7,348 |
| Total current assets | 306,624 | 282,709 |
| Property and equipment, net | 136,034 | 143,038 |
| Other investments and assets | 27,686 | 28,504 |
| Deferred income taxes | 38,489 | 40,891 |
| Goodwill | 186,605 | 184,310 |
| Other intangible assets, net | 6,142 | 6,238 |
| Total Assets | \$ 701,580 | \$ 685,690 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 46,904 | \$ 35,150 |
| Other current liabilities | 112,751 | 131,498 |
| Current portion of long-term debt and capital lease obligations | 2,012 | 3,263 |
| Total current liabilities | 161,667 | 169,911 |
| Long-term debt and capital lease obligations | 13,547 | 14,089 |
| Pension and other postretirement benefits | 28,779 | 28,428 |
| Other deferred items and insurance liabilities | 70,864 | 71,589 |
| Commitments and contingencies (Note 14) | | |
| Minority interest | 4,557 | 4,704 |
| Common stock and other equity: | | |
| Common stock, \$1.50 par value, 200,000,000 shares authorized, 24,934,981 shares issued | 37,402 | 37,402 |
| Additional capital | 636,923 | 653,883 |
| Retained earnings (deficit) | 57 | (40,199) |
| Unearned employee benefits and other | (13,740) | (17,409) |
| Accumulated other comprehensive income (loss): | | |
| Unrealized gain on investments | 456 | 456 |
| Unrealized gain on derivative financial instruments | 61 | 38 |

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| | | |
|--|-------------------|-------------------|
| Cumulative foreign currency translation adjustments | 30,052 | 23,576 |
| Minimum pension liability adjustment | (5,548) | (5,548) |
| Common stock in treasury, at cost, 3,302,379 and 2,500,927 shares, respectively | (263,497) | (255,230) |
| Total common stock and other equity | 422,166 | 396,969 |
| Total Liabilities and Stockholders Equity | \$ 701,580 | \$ 685,690 |

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three months ended June 30, | | Six months ended June | |
|---|--|------------------|------------------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (in thousands, except per share data) | | | |
| Revenues: | | | | |
| Convention show services | \$ 169,910 | \$ 151,523 | \$ 357,173 | \$ 342,964 |
| Exhibit design and construction | 46,324 | 57,414 | 87,912 | 110,755 |
| Travel and recreation services | 21,175 | 18,094 | 26,094 | 22,824 |
| Total revenues | 237,409 | 227,031 | 471,179 | 476,543 |
| Costs and expenses: | | | | |
| Costs of services | 171,118 | 149,488 | 341,730 | 321,149 |
| Costs of products sold | 40,492 | 55,254 | 85,940 | 110,338 |
| Corporate activities and minority interest | 3,312 | 3,147 | 5,052 | 5,766 |
| Gains on sale of corporate assets | | | (3,468) | |
| Restructuring recoveries | (552) | (73) | (570) | (363) |
| Impairment recoveries | | | (843) | |
| Net interest income | (1,521) | (262) | (2,958) | (412) |
| Total costs and expenses | 212,849 | 207,554 | 424,883 | 436,478 |
| Income before income taxes | 24,560 | 19,477 | 46,296 | 40,065 |
| Income tax expense | 5,977 | 8,391 | 13,956 | 16,554 |
| Income from continuing operations | 18,583 | 11,086 | 32,340 | 23,511 |
| Income (loss) from discontinued operations | 9,679 | 59 | 9,530 | (168) |
| Net income | \$ 28,262 | \$ 11,145 | \$ 41,870 | \$ 23,343 |
| Diluted income per common share | | | | |
| Income from continuing operations | \$ 0.86 | \$ 0.50 | \$ 1.47 | \$ 1.06 |
| Income (loss) from discontinued operations | 0.44 | | 0.44 | (0.01) |
| Net income | \$ 1.30 | \$ 0.50 | \$ 1.91 | \$ 1.05 |
| Average outstanding and potentially dilutive common shares | 21,718 | 22,191 | 21,964 | 22,142 |
| Basic income per common share | | | | |
| Income from continuing operations | \$ 0.87 | \$ 0.51 | \$ 1.50 | \$ 1.07 |
| Income (loss) from discontinued operations | 0.45 | | 0.44 | (0.01) |

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| | | | | |
|-------------------------------------|---------|---------|---------|---------|
| Net income | \$ 1.32 | \$ 0.51 | \$ 1.94 | \$ 1.06 |
| Average outstanding common shares | 21,436 | 22,033 | 21,624 | 21,975 |
| Dividends declared per common share | \$ 0.04 | \$ 0.04 | \$ 0.08 | \$ 0.08 |

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| | Three months ended June | | Six months ended June | |
|---|-------------------------|-----------|-----------------------|-----------|
| | 30, | | 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| | (in thousands) | | | |
| Net income | \$ 28,262 | \$ 11,145 | \$ 41,870 | \$ 23,343 |
| Other comprehensive income (loss): | | | | |
| Unrealized gains (losses) on investments: | | | | |
| Holding gains (losses) arising during the period, net of tax | (58) | 18 | | (36) |
| Unrealized gains on derivative financial instruments: | | | | |
| Holding gains arising during the period, net of tax | 41 | | 23 | |
| Unrealized foreign currency translation gains (losses) | 7,015 | (1,650) | 6,476 | (2,939) |
| Other comprehensive income (loss) | 6,998 | (1,632) | 6,499 | (2,975) |
| Comprehensive income | \$ 35,260 | \$ 9,513 | \$ 48,369 | \$ 20,368 |

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six months ended June 30, | |
|---|----------------------------------|-------------|
| | 2006 | 2005 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 41,870 | \$ 23,343 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,025 | 11,403 |
| Deferred income taxes | 1,227 | 6,101 |
| Loss (income) from discontinued operations | (9,530) | 168 |
| Restructuring recoveries | (570) | (363) |
| Gains on dispositions of property and other assets | (3,478) | (198) |
| Share-based compensation expense | 4,086 | 3,854 |
| Tax benefits from share-based compensation arrangements | 4,759 | 235 |
| Excess tax benefits from share-based compensation arrangements | (3,248) | |
| Other non-cash items, net | 2,188 | 1,791 |
| Change in operating assets and liabilities: | | |
| Receivables | (14,551) | (29,559) |
| Inventories | (3,360) | 4,883 |
| Accounts payable | 14,246 | 8,767 |
| Restructuring liability | (582) | (1,267) |
| Other assets and liabilities, net | (9,341) | (19,518) |
| Net cash provided by operating activities | 33,741 | 9,640 |
| Cash flows from investing activities: | | |
| Capital expenditures | (10,376) | (10,646) |
| Proceeds from dispositions of property and other assets | 13,421 | 8,793 |
| Net cash provided by (used in) investing activities | 3,045 | (1,853) |
| Cash flows from financing activities: | | |
| Payments on debt and capital lease obligations | (2,439) | (3,159) |
| Dividends paid on common stock | (1,742) | (1,763) |
| Common stock purchased for treasury | (31,822) | |
| Debt issuance costs | (488) | |
| Excess tax benefits from share-based compensation arrangements | 3,248 | |
| Proceeds from exercise of stock options | 3,680 | 2,643 |
| Net cash used in financing activities | (29,563) | (2,279) |
| Effect of exchange rate changes on cash and cash equivalents | 969 | (271) |
| Net increase in cash and cash equivalents | 8,192 | 5,237 |

| | | |
|---|-------------------|-------------------|
| Cash and cash equivalents, beginning of year | 152,601 | 115,050 |
| Cash and cash equivalents, end of period | \$ 160,793 | \$ 120,287 |

Supplemental disclosure of cash flow information

Cash paid during the period for:

| | | |
|---|----------|-----------|
| Income taxes | \$ 6,989 | \$ 16,632 |
| Interest | \$ 565 | \$ 1,022 |
| Equipment acquired under capital leases | \$ 667 | \$ 659 |

See Notes to Consolidated Financial Statements.

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VIAD CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Preparation and Principles of Consolidation

The accompanying unaudited consolidated financial statements of Viad Corp (Viad or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. Certain prior period amounts have been reclassified to conform to the current period presentation.

For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2005, included in the Company's Form 10-K (File No. 001-11015), filed with the Securities and Exchange Commission (SEC) on March 1, 2006.

The consolidated financial statements include the accounts of Viad and all of its subsidiaries. All significant intercompany account balances and transactions between Viad and its subsidiaries have been eliminated in consolidation. Viad's reporting segments consist of: GES Exposition Services, Inc. (GES), Exhibitgroup/Giltspur (Exhibitgroup) and Travel and Recreation Services.

Note 2. Share-Based Compensation

Viad grants share-based compensation awards pursuant to the Viad Corp Omnibus Incentive Plan (the Omnibus Plan), which was adopted by Viad's stockholders in 1997. The Omnibus Plan provides for the following types of awards to officers, directors and certain key employees: (a) incentive and non-qualified stock options; (b) restricted stock; (c) performance-based awards; and (d) stock appreciation rights. The number of shares of common stock available for grant under the Omnibus Plan in each calendar year is limited to two percent of the total number of shares of common stock outstanding as of the first day of each year, provided that any shares available for grant in a particular year which are not, in fact, granted in that year will be added to the shares available for grant in any subsequent year. Viad issues shares related to its share-based compensation awards from its Employee Equity Trust and from shares held in treasury. Viad has the authority to repurchase common stock for the purpose of replacing shares issued upon exercise of stock options and in connection with other stock compensation plans. There were no repurchases of common stock under this program during the six months ended June 30, 2006 or 2005.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, which requires that compensation cost related to all share-based payment arrangements, including employee stock options, be recognized in the financial statements based on the fair value method of accounting. In addition, SFAS No. 123(R) requires that excess tax benefits related to share-based payment arrangements be classified as cash inflows from financing activities and cash outflows from operating activities. SFAS No. 123(R) is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supercedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations.

As originally permitted by SFAS No. 123, Viad had previously elected to apply the guidance in APB Opinion No. 25, which allowed companies to use the intrinsic value method of accounting to measure the value of share-based payment transactions with employees. Based on this method, Viad had not previously recognized the compensation cost related to employee stock options in the consolidated financial statements as the stock options granted had an exercise price equal to the fair market value of the underlying common stock on the date of grant. Effective January 1, 2006, Viad adopted the provisions of SFAS No. 123(R) using the modified prospective application method. Accordingly, prior period amounts have not been restated. Under the modified prospective application method, the compensation cost related to the unvested portion of all awards (including stock options) granted prior to the adoption of SFAS No. 123(R) and all new awards are recognized in the consolidated financial statements over the requisite service period based on the fair value of the awards.

Total share-based compensation expense recognized in the consolidated financial statements during the three months ended June 30, 2006 and 2005, was \$2.1 million and \$1.8 million, respectively, and \$4.1 million and \$3.9 million, during the six months ended June 30, 2006 and 2005, respectively. Furthermore, the total tax benefits related to such costs were \$798,000 and \$699,000 for the three months ended June 30, 2006 and 2005, respectively, and \$1.6 million and \$1.5 million for the six months ended June 30, 2006 and 2005, respectively. No share-based compensation costs were capitalized during the six months ended June 30, 2006 or 2005.

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During the three and six months ended June 30, 2006, the adoption of SFAS No. 123(R) resulted in incremental share-based compensation expense (and a reduction of income before income taxes) of \$93,000 and \$536,000, respectively. As a result of this incremental expense, net income was reduced by \$74,000 and \$400,000, respectively. Diluted and basic income per share were each reduced by \$0.02 per share for the six months ended June 30, 2006. Also in connection with the adoption of SFAS No. 123(R), Viad presented \$3.2 million of excess tax benefits from share-based compensation arrangements as a cash outflow from operating activities and a cash inflow from financing activities during the six months ended June 30, 2006.

As noted above, prior to the adoption of SFAS No. 123(R), Viad used the intrinsic value method of accounting prescribed by APB Opinion No. 25. Assuming Viad had recognized compensation cost during the three and six months ended June 30, 2005 related to all share-based compensation awards (including stock options) in accordance with the fair value method of accounting under SFAS No. 123, net income and diluted and basic income per share would have been as presented below. Compensation cost calculated under SFAS No. 123 is recognized over the vesting period and is net of estimated forfeitures and tax effects. The forfeiture rate assumption is based on the Company's historical average forfeiture rate.

| | Three months ended June 30, 2005 | Six months ended June 30, 2005 |
|---|---|---|
| | (in thousands, except per share data) | |
| Net income, as reported | \$ 11,145 | \$ 23,343 |
| Less: share-based compensation expense determined under fair value based method, net of tax | (330) | (731) |
| Pro forma net income | \$ 10,815 | \$ 22,612 |
| Diluted income per share: | | |
| As reported | \$ 0.50 | \$ 1.05 |
| Pro forma | \$ 0.49 | \$ 1.03 |
| Basic income per share: | | |
| As reported | \$ 0.51 | \$ 1.06 |
| Pro forma | \$ 0.49 | \$ 1.04 |

For purposes of applying SFAS No. 123(R) (and SFAS No. 123 where applicable), the fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model for the six months ended June 30 with the following assumptions:

| | 2006 | 2005 |
|---|-------------|-------------|
| Estimated fair value of stock options granted | \$ 9.29 | \$ 7.57 |
| Expected dividend yield | 0.5% | 0.6% |
| Expected volatility | 24.3% | 26.3% |
| Expected life | 5 years | 5 years |
| Risk-free interest rate | 4.57% | 3.89% |

The expected dividend yield was based on Viad's expectation of future dividend payouts. The volatility assumption was based on Viad's daily historical stock price volatility during the time period that corresponds to the expected weighted-average life of the option. The expected life (estimated period of time outstanding) of stock options granted was estimated based on historical exercise activity. The risk-free interest rate assumption was based on the interest rate of a U.S. Treasury strip for a five-year term from the date the option was granted.

Stock options granted during the six months ended June 30, 2006 and 2005 were for contractual terms of seven years at exercise prices based on the fair market value of Viad's common stock on the grant date. Stock options become exercisable, based on a graded vesting schedule, in annual increments of 20 percent beginning one year after grant date and become fully exercisable after five years from the date of grant. Stock options granted since 1998 contain certain forfeiture and non-compete provisions. Share-based compensation expense related to stock option awards is recognized on the straight-line method over the requisite service period, which is approximately five years. As of June 30, 2006, the total unrecognized cost related to non-vested stock option awards was \$2.8 million. Viad expects to recognize such costs in the consolidated financial statements over a weighted-average period of 2.0 years.

Viad's stock options generally contain contingent cash settlement features upon a change of control of the Company as defined in the Omnibus Plan. Management believes this cash settlement event is not considered probable, and therefore, the outstanding stock options are accounted for as equity awards and not considered liability awards under SFAS No. 123(R) and

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related guidance. Although not considered probable, the cash settlement contingency is deemed to be outside the control of Viad. Accordingly, Viad's stock options are subject to the provisions of SEC Accounting Series Release No. 268, "Presentation in Financial Statements of Redeemable Preferred Stocks" and Emerging Issues Task Force Issue No. D-98, "Classification and Measurement of Redeemable Securities." This guidance generally specifies that when the redemption of instruments (within its scope) is outside the control of the issuer, certain amounts should be classified outside of permanent equity on the balance sheet. As of June 30, 2006, Viad has not recorded any amounts related to stock options outside of permanent equity as there was no intrinsic value (in-the-money redemption amount) related to Viad's stock options on the date of grant. As noted above, the exercise price of Viad's stock option grants is based on the fair market value of the underlying common stock on the date of grant.

The following table summarizes stock option activity during the six months ended June 30, 2006:

| | Shares | Weighted-Average Exercise Price | Options Exercisable |
|--|---------------|--|----------------------------|
| Options outstanding at January 1, 2006 | 1,109,770 | \$ 23.55 | 745,732 |
| Granted | 21,700 | 31.92 | |
| Exercised | (117,252) | 23.13 | |
| Forfeited | (76,128) | 22.21 | |
| Options outstanding at June 30, 2006 | 938,090 | 23.90 | 688,220 |

The following table summarizes information concerning stock options outstanding and exercisable as of June 30, 2006:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|---------------------------------|----------------------------|--|--|----------------------------|--|
| | Shares | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| \$13.24 to \$19.57 | 171,096 | 4.6 years | \$ 18.27 | 171,096 | \$ 18.27 |
| \$19.65 to \$23.82 | 159,821 | 3.8 years | 22.35 | 159,447 | 22.36 |
| \$24.05 to \$25.19 | 217,573 | 4.6 years | 24.14 | 160,246 | 24.11 |
| \$26.07 to \$26.31 | 273,902 | 5.7 years | 26.22 | 135,182 | 26.13 |
| \$26.37 to \$31.92 | 115,698 | 4.5 years | 28.44 | 62,249 | 27.97 |
| \$13.24 to \$31.92 | 938,090 | 4.8 years | 23.90 | 688,220 | 23.00 |

In addition to the above, Viad had stock options outstanding which were granted to employees of MoneyGram International, Inc. prior to the spin-off of that company as described in Note 15. As of June 30, 2006, there were 114,872 of such options outstanding at weighted-average exercise prices of \$13.24 to \$28.15. Of the total amount outstanding, 82,178 were exercisable at weighted-average exercise prices of \$13.24 to \$28.15. The weighted-average remaining contractual life of these options was 5.0 years. During the six months ended June 30, 2006, a total of 49,543 options were exercised by employees of MoneyGram International, Inc. at weighted-average exercise prices of \$18.90 to \$28.15.

The aggregate intrinsic value related to stock options outstanding as of June 30, 2006 was \$8.0 million. The aggregate intrinsic value is based on the weighted-average exercise price and Viad's closing stock price of \$31.30 as of June 30, 2006. The total intrinsic value of stock option awards exercised during the six months ended June 30, 2006 and 2005 was \$3.8 million and \$2.5 million, respectively. The fair value of stock options that vested during the six

months ended June 30, 2006 and 2005 was \$1.9 million and \$1.6 million, respectively. During the six months ended June 30, 2006 and 2005, Viad received cash proceeds from the exercise of stock options of \$3.7 million and \$2.6 million, respectively. The actual tax benefits realized for the tax deductions related to the exercise of stock options and vesting of restricted stock and performance-based awards was \$4.8 million and \$235,000 for the six months ended June 30, 2006 and 2005, respectively.

Restricted stock awards of 181,350 and 103,300 shares were granted during the six months ended June 30, 2006 and 2005, respectively, at weighted-average grant date fair values (based on the fair market value on the date of grant) of \$32.81 and \$26.30, respectively. The fair value of restricted stock that vested during the six months ended June 30, 2006 and 2005 was \$759,000 and \$873,000, respectively. All restricted stock awards vest three years from the date of grant. Share-based compensation expense related to restricted stock awards is recognized on the straight-line method over the requisite service period, which is approximately three years. As of June 30, 2006, the total unrecognized costs related to non-vested restricted stock awards granted was \$6.7 million. Viad expects to recognize such costs in the consolidated financial statements over a weighted-average period of 1.5 years.

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During the six months ended June 30, 2006 and 2005, Viad also granted performance-based restricted stock (PBRs) awards of 58,200 and 81,800 shares, respectively, at weighted-average grant date fair values (based on the fair market value on the date of grant) of \$32.60 and \$26.31, respectively. The fair value of PBRs that vested during the six months ended June 30, 2006 and 2005 was \$1.2 million and \$558,000, respectively. PBRs vests when certain incentive performance targets established in the year of grant are achieved at target levels. PBRs awards are subject to a graded vesting schedule whereby one third of the earned shares vest after the first year, another third after two years and the balance after three years from the date of grant. Share-based compensation expense related to PBRs awards is recognized based on an accelerated multiple-award approach over the requisite service period, which is approximately three years. As of June 30, 2006, the total unrecognized costs related to non-vested PBRs awards granted was \$2.0 million. Viad expects to recognize such costs in the consolidated financial statements over a weighted-average period of 1.0 years.

Certain performance-driven restricted stock (PDRS) awards granted in 2002 and 2001 vested during the six months ended June 30, 2006 and 2005 based on achievement of certain long-term incentive performance targets. The fair value of PDRS that vested during the six months ended June 30, 2006 and 2005 was \$313,000 and \$1.4 million, respectively.

Future vesting of restricted stock and PBRs is generally subject to continued employment with Viad or its subsidiaries. Holders of restricted stock and PBRs have the right to receive dividends and vote the shares, but may not sell, assign, transfer, pledge or otherwise encumber the stock, except to the extent restrictions have lapsed. The following table summarizes restricted stock, PBRs and PDRS activity during the six months ended June 30, 2006:

| | Restricted Stock | | PBRs | | PDRS | |
|----------------------------|------------------|--|----------|--|----------|--|
| | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value |
| Balance at January 1, 2006 | 165,050 | \$ 24.38 | 114,682 | \$ 25.04 | 13,734 | \$ 22.76 |
| Granted | 181,350 | 32.81 | 58,200 | 32.60 | | |
| Vested | (38,800) | 19.57 | (51,752) | 23.94 | (13,734) | 22.76 |
| Forfeited | (22,525) | 28.37 | (11,342) | 28.96 | | |
| Balance at June 30, 2006 | 285,075 | 30.08 | 109,788 | 29.16 | | |

During the six months ended June 30, 2006 and 2005, Viad granted performance unit incentive plan (PUP) awards to key employees pursuant to the Omnibus Plan of 84,080 and 130,900, respectively. PUP awards are earned based on the level of achievement of predefined performance goals over the performance period, which is three years. To the extent earned, the PUP awards will be settled in cash based on the market price of Viad's common stock. The aggregate liability related to PUP awards is recorded at estimated fair value based on the number of units expected to vest, and is remeasured on each balance sheet date until the time of cash settlement. As of June 30, 2006, Viad had recorded liabilities of \$295,000 and \$3.1 million related to the 2006 and 2005 PUP awards, respectively. Share-based compensation expense related to PUP awards is recognized ratably over the requisite service period, which is approximately three years. There were no PUP awards which vested during the six months ended June 30, 2006 or 2005. Furthermore, there were no cash settlements related to PUP awards or any other share-based compensation awards during such periods.

Note 3. Impairment Losses and Recoveries

In September 2005, GES's operations in New Orleans, Louisiana were severely impacted by Hurricane Katrina and related events. As a result, management estimated the damage to GES's New Orleans property and recorded asset impairment and related losses of \$843,000. During the six months ended June 30, 2006, Viad recorded insurance recoveries of \$843,000 related to claims associated with Hurricane Katrina which are included in the consolidated

statements of operations under the caption Impairment recoveries. The final resolution of these claims remains pending with Viad's insurance carriers, and the amounts of additional recoveries, if any, remain uncertain.

Note 4. Gains on Sale of Corporate Assets

In January 2005, Viad sold a 50 percent interest in its corporate aircraft to a former subsidiary, MoneyGram International, Inc. (MoneyGram), for \$8.6 million in cash. No gain or loss was recorded in connection with the transaction. In January 2006, Viad sold its remaining 50 percent interest in its corporate aircraft and certain related equipment to MoneyGram for \$10.0 million in cash, resulting in a gain of \$1.7 million. See Note 15.

Also in January 2006, Viad sold certain undeveloped land in Phoenix, Arizona for \$2.9 million in cash to an unrelated third party, resulting in a gain of \$1.7 million.

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The components of inventories were as follows:

| | June 30, 2006 | December 31, 2005 |
|-----------------|------------------------------|----------------------------------|
| | (in thousands) | |
| Raw materials | \$ 24,862 | \$ 23,271 |
| Work in process | 16,351 | 14,582 |
| Inventories | \$ 41,213 | \$ 37,853 |

Note 6. Property and Equipment

Property and equipment consisted of the following:

| | June 30, 2006 | December 31, 2005 |
|--------------------------------------|--------------------------|----------------------------------|
| | (in thousands) | |
| Land | \$ 25,174 | \$ 24,426 |
| Buildings and leasehold improvements | 82,690 | 80,947 |
| Equipment and other | 231,453 | 237,369 |
| | 339,317 | 342,742 |
| Accumulated depreciation | (203,283) | (199,704) |
| Property and equipment, net | \$ 136,034 | \$ 143,038 |

Depreciation expense for the three months ended June 30, 2006 and 2005 was \$5.1 million and \$5.4 million, respectively, and for the six months ended June 30, 2006 and 2005 was \$9.9 million and \$11.3 million, respectively.

Note 7. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2006 were as follows:

| | GES | Travel and Recreation (in thousands) | Total |
|--|------------|---|--------------|
| Balance at January 1, 2006 | \$ 149,526 | \$ 34,784 | \$ 184,310 |
| Foreign currency translation adjustments | 554 | 1,741 | 2,295 |
| Balance at June 30, 2006 | \$ 150,080 | \$ 36,525 | \$ 186,605 |

A summary of other intangible assets as of June 30, 2006 is presented below:

| Gross Carrying Value | Accumulated Amortization (in thousands) | Net Carrying Value |
|-------------------------------------|--|-----------------------------------|
|-------------------------------------|--|-----------------------------------|

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| | | | |
|--------------------------------|----|-------|-------------------|
| Amortized intangible assets: | | | |
| Customer lists | \$ | 941 | \$ (408) \$ 533 |
| Other | | 615 | (169) 446 |
| | | 1,556 | (577) 979 |
| Unamortized intangible assets: | | | |
| Trademarks | | 4,590 | 4,590 |
| Pension intangible assets | | 573 | 573 |
| | | 5,163 | 5,163 |
| Total | \$ | 6,719 | \$ (577) \$ 6,142 |

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A summary of other intangible assets as of December 31, 2005 is presented below:

| | Gross Carrying Value | Accumulated Amortization (in thousands) | Net Carrying Value |
|--------------------------------|-------------------------------------|--|-----------------------------------|
| Amortized intangible assets: | | | |
| Customer lists | \$ 904 | \$ (301) | \$ 603 |
| Other | 590 | (118) | 472 |
| | 1,494 | (419) | 1,075 |
| Unamortized intangible assets: | | | |
| Trademarks | 4,590 | | 4,590 |
| Pension intangible assets | 573 | | 573 |
| | 5,163 | | 5,163 |
| Total | \$ 6,657 | \$ (419) | \$ 6,238 |

Intangible asset amortization expense for the three months ended June 30, 2006 and 2005 was \$69,000 and \$59,000, respectively, and \$138,000 and \$117,000 for the six months ended June 30, 2006 and 2005, respectively. The estimated weighted-average amortization period of amortized intangible assets as of June 30, 2006 was 2.1 years. Estimated amortization expense related to amortized intangible assets for the remainder of 2006 and succeeding years is expected to be \$132,000 (2006), \$310,000 (2007), \$358,000 (2008) and \$179,000 (2009).

Note 8. Accrued Liabilities and Other

Other current liabilities consisted of the following:

| | June 30, 2006 | December 31, 2005 |
|--|--------------------------|----------------------------------|
| | (in thousands) | |
| Accrued income taxes | \$ 35,744 | \$ 37,973 |
| Customer deposits | 26,955 | 33,527 |
| Accrued compensation | 20,320 | 17,545 |
| Self-insured liability accrual | 7,724 | 8,045 |
| Accrued restructuring | 1,526 | 1,735 |
| Accrued dividends | 994 | 1,044 |
| Product warranty liabilities associated with a previously sold manufacturing operation | | 11,827 |
| Other | 19,488 | 19,802 |
| Total other current liabilities | \$ 112,751 | \$ 131,498 |

For a discussion of accrued income taxes and liabilities associated with previously sold operations, see Notes 11 and 14, respectively.

Other deferred items and insurance liabilities consisted of the following:

| | June 30, 2006 | December 31, 2005 |
|--|------------------------------|----------------------------------|
| | (in thousands) | |
| Self-insured liability accrual | \$ 25,302 | \$ 25,882 |
| Liabilities associated with previously sold operations | 14,044 | 14,081 |
| Accrued restructuring | 7,882 | 8,825 |
| Foreign deferred tax liability | 5,969 | 5,468 |
| Deferred gain on sale of property | 4,027 | 4,510 |
| Other | 13,640 | 12,823 |
| Total other deferred items and insurance liabilities | \$ 70,864 | \$ 71,589 |

Table of Contents**Note 9. Debt**

As of June 30, 2006, Viad's total debt of \$15.6 million consisted of \$4.9 million of capital lease obligations and a \$10.7 million borrowing under the Company's secured revolving credit agreement (the "Credit Facility") which was amended June 15, 2006. The Credit Facility amends and restates the Company's previous \$150 million credit agreement dated June 30, 2004 and provides for a \$150 million revolving line of credit, which may be increased up to an additional \$75 million under certain circumstances. The term of the Credit Facility is five years (expiring on June 15, 2011) and borrowings are to be used for general corporate purposes (including permitted acquisitions) and to support up to \$75 million of letters of credit. The lenders have a first perfected security interest in all of the personal property of Viad and GES, including 65 percent of the capital stock of top-tier foreign subsidiaries.

Borrowings under the Credit Facility (of which GES is a guarantor) are indexed to the prime rate or the London Interbank Offering Rate, plus appropriate spreads tied to Viad's leverage ratio. Commitment fees and letters of credit fees are also tied to Viad's leverage ratio. Financial covenants include a minimum consolidated net worth requirement of not less than \$344.6 million plus 50 percent of positive quarterly net income earned in each fiscal quarter beginning with the quarter ended June 30, 2006, a fixed-charge coverage ratio of not less than 1.25 to 1 and a leverage ratio of not greater than 2.75 to 1. Significant other covenants include limitations on: investments, common stock dividends, stock repurchases, additional indebtedness, sales/leases of assets, acquisitions, consolidations or mergers and liens on property. As of June 30, 2006, Viad was in compliance with all covenants.

In May 2006, Viad repaid its 10.5 percent subordinated debentures outstanding of \$1.3 million pursuant to their scheduled maturity.

Note 10. Income Per Share

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

| | Three months ended June | | Six months ended June | |
|--|--|---------------------------|------------------------------|---------------------------|
| | 2006 | 30, 2005 | 2006 | 30, 2005 |
| | (in thousands, except per share data) | | | |
| Income from continuing operations | \$ 18,583 | \$ 11,086 | \$ 32,340 | \$ 23,511 |
| Average outstanding common shares | 21,436 | 22,033 | 21,624 | 21,975 |
| Additional dilutive shares related to share-based compensation | 282 | 158 | 340 | 167 |
| Average outstanding and potentially dilutive common shares | 21,718 | 22,191 | 21,964 | 22,142 |
| Diluted income per share from continuing operations | \$ 0.86 | \$ 0.50 | \$ 1.47 | \$ 1.06 |
| Basic income per share from continuing operations | \$ 0.87 | \$ 0.51 | \$ 1.50 | \$ 1.07 |

Options to purchase 15,000 and 104,000 shares of common stock were outstanding as of June 30, 2006 and 2005, respectively, but were not included in the computation of diluted income per share because the effect would be anti-dilutive.

Table of Contents**Note 11. Income Taxes**

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

| | 2006 | | 2005 | |
|---|----------------|--------|-----------|-------|
| | (in thousands) | | | |
| Computed income tax expense at statutory federal income tax rate of 35% | \$ 16,204 | 35.0% | \$ 14,023 | 35.0% |
| State income taxes | 1,199 | 2.6% | 2,237 | 5.6% |
| Foreign tax refund | (1,598) | (3.5%) | | 0.0% |
| Other, net | (1,638) | (3.5%) | 247 | 0.6% |
| | 14,167 | 30.6% | 16,507 | 41.2% |
| Adjustment to estimated annual effective rate ⁽¹⁾ | (211) | (0.5%) | 47 | 0.1% |
| Income tax expense | \$ 13,956 | 30.1% | \$ 16,554 | 41.3% |

(1) APB Opinion No. 28, Interim Financial Reporting, requires that income taxes be recorded based on the estimated effective tax rate expected to be applicable for the entire fiscal year.

Viad is subject to regular and recurring audits by the taxing authorities in the jurisdictions in which the Company conducts or had previously conducted significant operations. Accordingly, the Company has recorded accrued liabilities associated with specific U.S. federal, state, local and foreign tax audit exposures expected to arise in connection with such audits. As of June 30, 2006 and December 31, 2005, Viad had \$29.3 million and \$36.0 million, respectively, accrued for these exposures, which includes accrued interest. If amounts accrued are less than amounts ultimately assessed by the taxing authorities, Viad would record additional income tax expense in the period in which the assessment is determined. To the extent that the Company has favorable settlements or determines that reserves are no longer needed, such liabilities would be reversed as a reduction of income tax expense (net of federal tax effects, if applicable), or in some cases through discontinued operations, in the period such determination is made. Viad's policy is to retain amounts accrued for tax audit exposures until final resolution or settlement with the appropriate taxing authority. Based on tax audits in process and other factors, management currently estimates that tax issues of approximately \$4.0 million (exclusive of any federal tax effects) could potentially be resolved or settled during the remainder of 2006 resulting in a decrease of accrued income taxes. To the extent these tax resolutions or settlements occur, they would result in cash payments and/or the reversal of accrued income taxes, which may include amounts related to previously discontinued operations. During the three and six months ended June 30, 2006, Viad recorded favorable tax settlements in continuing operations of \$3.2 million and \$4.2 million, respectively. These settlements resulted in a decrease to income tax expense. See Note 19 for a discussion of tax matters related to discontinued operations.

In addition to the specific tax audit exposures for which Viad has recorded loss liabilities, there are other known tax audit exposures which have been identified in recent and ongoing tax audits for which Viad has not recorded contingent liabilities as potential losses related to those specific issues are not deemed probable. To the extent that the facts and circumstances related to these known tax audit exposures indicate that an unfavorable outcome is probable and can be reasonably estimated, Viad would record accrued liabilities and additional income tax expense in the period for which that assessment is determined. For the specific issues for which Viad can reasonably estimate a range of possible loss, the aggregate decrease to net income could range from \$500,000 to \$2.0 million.

Note 12. Pension and Other Postretirement Benefit Plans

The net periodic costs for defined benefit pension plans and other postretirement benefit plans for the three months ended June 30 included the following components:

| | Pension Benefits | | Other Postretirement Benefits | |
|------------------------------------|------------------|--------|-------------------------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| | (in thousands) | | | |
| Service cost | \$ 52 | \$ 59 | \$ 21 | \$ 20 |
| Interest cost | 280 | 284 | 322 | 358 |
| Expected return on plan assets | (199) | (217) | (71) | (75) |
| Amortization of prior service cost | 52 | 52 | (290) | (267) |
| Recognized net actuarial loss | 121 | 114 | 146 | 173 |
| Net periodic benefit cost | \$ 306 | \$ 292 | \$ 128 | \$ 209 |

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For the six months ended June 30, the net periodic costs for defined benefit pension plans and other postretirement benefit plans included the following components:

| | Pension Benefits | | Other Postretirement Benefits | |
|------------------------------------|------------------|--------|-------------------------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| | (in thousands) | | | |
| Service cost | \$ 104 | \$ 118 | \$ 42 | \$ 40 |
| Interest cost | 560 | 568 | 644 | 716 |
| Expected return on plan assets | (398) | (434) | (142) | (150) |
| Amortization of prior service cost | 104 | 104 | (580) | (534) |
| Recognized net actuarial loss | 241 | 198 | 291 | 346 |
| Net periodic benefit cost | \$ 611 | \$ 554 | \$ 255 | \$ 418 |

Viad expects to contribute approximately \$547,000 to its unfunded pension plans and approximately \$600,000 to its other postretirement benefit plans in 2006. Viad is not required to contribute to its funded pension plans in 2006. As of June 30, 2006, Viad has contributed \$275,000 to its unfunded pension plans and \$340,000 to its other postretirement benefit plans.

Note 13. Restructuring Charges and Recoveries

In 2004, Viad recorded restructuring charges of \$853,000 primarily related to planned employee reductions as a result of the spin-off of MoneyGram (see Note 15). All amounts related to this reserve had been paid as of March 31, 2005 and thus, during the three months ended March 31, 2005, the remaining liability of \$43,000 was reversed. Viad recorded an additional charge of \$850,000 in 2004 as a result of the consolidation of certain leased office space at its corporate headquarters. Viad revised this estimated future obligation during 2005 and recorded an additional charge of \$358,000. As of June 30, 2006, \$972,000 of the liability remained of which \$188,000 was included in the consolidated balance sheets under the caption Other current liabilities and \$784,000 under the caption Other deferred items and insurance liabilities.

In 2002, Viad approved a restructuring plan related to Exhibitgroup and recorded a charge totaling \$20.5 million. The charge consisted of costs associated with the closure and consolidation of certain facilities, severance and other employee benefits and included a provision for the write-down (net of estimated proceeds) of certain inventories and fixed assets, facility closure and lease termination costs (less estimated sublease income) and other exit costs. During the three months ended June 30, 2006, \$24,000 of the reserve was reversed and as of June 30, 2006, there was a remaining liability of \$1.4 million (comprised solely of future lease payment obligations), of which \$254,000 and \$1.1 million were included in the consolidated balance sheets under the captions Other current liabilities and Other deferred items and insurance liabilities, respectively. Viad had substantially completed the restructuring activities by December 31, 2003; however, payments due under the long-term lease obligations will continue to be made over the remaining terms of the lease agreements.

In 2001, Viad approved a plan of restructuring and recorded a charge totaling \$65.1 million of which \$13.6 million related to GES, \$47.9 million related to Exhibitgroup and \$3.6 million related to corporate activities. The restructuring charge was associated with the closure and consolidation of certain facilities, severance and other employee benefits. All facilities were closed or consolidated and all positions eliminated as of December 31, 2002. During the six months ended June 30, 2006, \$546,000 of the reserve was reversed (of which \$18,000 was reversed during the three months ended March 31, 2006). As of June 30, 2006, a liability remained of \$8.0 million (comprised solely of future lease payment obligations), of which \$1.3 million and \$6.7 million were included in the consolidated balance sheets under the captions Other current liabilities and Other deferred items and insurance liabilities, respectively. Payments due under the long-term lease obligations will continue to be made over the remaining terms of the lease agreements.

A summary of the changes in the 2002 and 2001 restructuring charge liability balances as of June 30, 2006 is as follows:

| | 2002 Restructuring | 2001 Restructuring (in thousands) | Total |
|----------------------------|-------------------------------|--|--------------|
| Balance at January 1, 2006 | \$ 1,574 | \$ 8,986 | \$ 10,560 |
| Cash payments | (169) | (413) | (582) |
| Adjustment to liability | (24) | (546) | (570) |
| Balance at June 30, 2006 | \$ 1,381 | \$ 8,027 | \$ 9,408 |

Table of Contents**Note 14. Litigation, Claims and Other Contingencies**

Viad and certain of its subsidiaries are plaintiffs or defendants to various actions, proceedings and legal matters including claims and counter-claims. Some of the foregoing involve, or may involve, compensatory, punitive or other damages. Litigation is subject to many uncertainties and it is possible that some of the legal actions, proceedings or claims could be decided against Viad. Although the amount of liability as of June 30, 2006, with respect to certain of these matters is not ascertainable, Viad believes that any resulting liability, after taking into consideration amounts already provided for, including insurance coverage, will not have a material effect on the Company's financial position or results of operations.

Included in Viad's other current liabilities at December 31, 2005 were retained liabilities of \$11.8 million relating to a previously sold manufacturing operation. In June 2006, Viad reversed these liabilities as a result of the expiration of product warranty liabilities and consequently recorded \$7.4 million (\$11.8 million pre-tax) in income from discontinued operations in the consolidated statements of operations. See Note 19.

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

As of June 30, 2006, Viad had certain obligations under guarantees to third parties on behalf of its subsidiaries. These guarantees are not subject to liability recognition in the consolidated financial statements and primarily relate to leased facilities and credit or loan arrangements with banks, entered into by Viad's subsidiary operations. The Company would generally be required to make payments to the respective third parties under these guarantees in the event that the related subsidiary could not meet its own payment obligations. The maximum potential amount of future payments that Viad would be required to make under all guarantees existing as of June 30, 2006 would be \$31.9 million, of which \$31.3 million related to aggregate guarantees on leased facilities and equipment expiring through January 2015. As of June 30, 2006, the aggregate guarantees related to credit or lease arrangements with banks were \$554,000 which expire concurrent with the credit or lease arrangement. There are no recourse provisions that would enable Viad to recover from third parties any payments made under the guarantees. Furthermore, there are no collateral or similar arrangements whereby Viad could recover payments.

Viad's Glacier Park, Inc. subsidiary (Glacier Park), an 80 percent owned subsidiary, operates the concession portion of its business under a 25-year concession contract with the U.S. National Park Service (the Park Service) for Glacier National Park and a 42-year lease with the Canadian Government for Waterton Lakes National Park. Glacier Park's lease with the Canadian Government expires in 2010, with Glacier Park having an option to renew for two additional terms of 42 years each. The concession contract with the Park Service expires in December 2006 as the Park Service exercised its right to extend the contract that was to expire on December 31, 2005 for a one-year period and, in its sole discretion, may extend Glacier Park's concession contract for up to two additional years. At the time the Park Service begins the request for proposal process for the Glacier National Park concession contracts, Glacier Park intends to submit a proposal. Contract terms of 10, 15 or 20 years are possible, with a contract of 15 years being the most likely. Were Glacier Park's contract to expire and a new concessionaire to be selected by the Park Service, Glacier Park's business would consist of the operations at Waterton Lakes National Park and East Glacier, Montana, which are not part of the Park Service concession contract. In such a circumstance, Glacier Park would be entitled to an amount equal to its possessory interest, which generally means the value of the structures acquired or constructed, fixtures installed and improvements made to the concession property at Glacier National Park during the term of the concessions contract, based on the reconstruction cost of a new unit of like kind, less physical depreciation, but not to exceed fair market value. Glacier Park approximated 21 percent of Travel and Recreation Services' full year 2005 operating income.

Note 15. Related Party Transactions

On June 30, 2004, Viad separated its payment services business from its other businesses by means of a tax-free spin-off. To effect the separation, Travelers Express Company, Inc. became a subsidiary of MoneyGram International, Inc., a newly-formed, wholly-owned subsidiary of Viad, and Viad distributed all of the shares of MoneyGram common stock as a dividend on Viad common stock on the date of the spin-off. Certain members of Viad's Board of Directors are also Directors of MoneyGram.

As discussed in Note 4 above, in January 2005, Viad sold a 50 percent interest in its corporate aircraft to MoneyGram for \$8.6 million in cash. No gain or loss was recorded in connection with the transaction. In accordance with the Joint Ownership Agreement entered into at the time of the transaction, Viad and MoneyGram shared the fixed costs of operating the aircraft and each paid the variable costs depending on the usage by each company. During the six months ended June 30, 2006 and 2005, Viad

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received aggregate payments of \$274,000 and \$592,000, respectively, from MoneyGram representing operating cost reimbursements pursuant to the Joint Ownership Agreement. Operating costs reimbursed by MoneyGram were recorded as a reduction of expense under the caption Corporate activities and minority interest in the consolidated statements of operations. In January 2006, Viad sold its remaining 50 percent interest in its corporate aircraft and certain related equipment to MoneyGram for \$10.0 million in cash, resulting in a gain of \$1.7 million. In conjunction with this sale, the Joint Ownership Agreement was terminated.

During the six months ended June 30, 2006, Viad received a \$146,000 payment from MoneyGram pursuant to the Tax Sharing Agreement dated June 30, 2004. Additionally, during the six months ended June 30, 2006 and 2005, Viad received aggregate payments of \$251,000 and \$820,000, respectively, related to certain administrative services provided to MoneyGram pursuant to the Interim Services Agreement dated June 30, 2004. As of June 30, 2006 and December 31, 2005, Viad had amounts receivable from MoneyGram of \$216,000 and \$207,000, respectively, related to the above activity, which are included in the consolidated balance sheets under the caption Accounts Receivable.

Note 16. Segment Information

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| | (in thousands) | | | |
| Revenues: | | | | |
| GES | \$ 169,336 | \$ 150,420 | \$ 363,463 | \$ 348,770 |
| Exhibitgroup | 46,898 | 58,517 | 81,622 | 104,949 |
| Travel and Recreation Services | 21,175 | 18,094 | 26,094 | 22,824 |
| | \$ 237,409 | \$ 227,031 | \$ 471,179 | \$ 476,543 |
| Segment operating income: | | | | |
| GES | \$ 18,353 | \$ 16,144 | \$ 40,773 | \$ 42,896 |
| Exhibitgroup | 2,677 | 1,985 | (350) | 157 |
| Travel and Recreation Services | 4,769 | 4,160 | 3,086 | 2,003 |
| | 25,799 | 22,289 | 43,509 | 45,056 |
| Corporate activities and minority interest | (3,312) | (3,147) | (5,052) | (5,766) |
| | 22,487 | 19,142 | 38,457 | 39,290 |
| Interest income | 1,930 | 864 | 3,733 | 1,571 |
| Interest expense | (409) | (602) | (775) | (1,159) |
| Gains on sale of corporate assets | | | 3,468 | |
| Impairment recoveries | | | 843 | |
| Restructuring recoveries: | | | | |
| GES | 352 | 73 | 370 | 73 |
| Exhibitgroup | 200 | | 200 | 247 |
| Corporate | | | | 43 |

| | | | | |
|----------------------------|-----------|-----------|-----------|-----------|
| Income before income taxes | \$ 24,560 | \$ 19,477 | \$ 46,296 | \$ 40,065 |
|----------------------------|-----------|-----------|-----------|-----------|

| | June 30, 2006 | December 31, 2005 |
|--------------------------------|--------------------------|----------------------------------|
| | (in thousands) | |
| Assets: | | |
| GES | \$ 262,349 | \$ 260,046 |
| Exhibitgroup | 90,477 | 89,323 |
| Travel and Recreation Services | 152,537 | 132,725 |
| Corporate and other | 196,217 | 203,596 |
| | \$ 701,580 | \$ 685,690 |

Table of Contents**Note 17. Impact of Recent Accounting Pronouncements**

In November 2004, the FASB issued SFAS No. 151, Inventory Costs (an amendment of Accounting Research Bulletin No. 43, Chapter 4). SFAS No. 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. SFAS No. 151 also requires that the allocation of fixed production overhead costs be based on the normal capacity of the production facility. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after July 15, 2005. Accordingly, Viad adopted SFAS No. 151 on January 1, 2006. The adoption of SFAS No. 151 did not have a material impact on Viad's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle (unless a different method is prescribed by the new standard) and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Accordingly, Viad adopted SFAS No. 154 on January 1, 2006. The adoption of SFAS No. 154 did not affect Viad's financial position or results of operations.

Viad adopted the provisions of SFAS No. 123(R) on January 1, 2006 using the modified prospective application method. Refer to Note 2 for a full discussion of the adoption of SFAS No. 123(R) and related disclosures.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 provides guidance on how to address uncertainty in accounting for income tax assets and liabilities and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under FIN 48, the recognition of current and deferred income taxes is determined based on whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, Viad will adopt the provisions of FIN 48 on January 1, 2007. The Company is currently evaluating the potential impact of FIN 48 on Viad's financial position and results of operations. Furthermore, the Company believes the adoption of FIN 48 could have a material effect on the amounts of current and deferred income tax assets and liabilities reported in Viad's consolidated balance sheets. The cumulative effect of applying the provisions of FIN 48 will generally be reported as an adjustment to the opening balance of retained earnings in the fiscal year of adoption.

Note 18. Common Stock Repurchases

During the three months ended June 30, 2006 and March 31, 2006, Viad repurchased 585,600 and 414,400 shares of its common stock for \$18.5 million and \$13.3 million, respectively, under an authorization by its Board of Directors. Viad also has the authority to repurchase common stock for the purpose of replacing shares issued upon exercise of stock options and in connection with other stock compensation plans. The last repurchase by Viad under this program was May 2003. See Note 20.

Note 19. Discontinued Operations

In June 2006, Viad recorded income from discontinued operations of \$7.4 million (\$11.8 million pre-tax) related to the reversal of certain current liabilities as a result of the expiration of product warranty liabilities associated with a previously sold manufacturing operation. In addition, Viad recorded income from discontinued operations of \$2.3 million and \$59,000 for the three months ended June 30, 2006 and 2005, respectively, primarily related to tax matters associated with previously sold operations. For the six months ended June 30, 2006, the Company recorded income from discontinued operations of \$2.2 million and a loss from discontinued operations of \$168,000 for the six

months ended June 30, 2005, also related to tax matters associated with previously sold operations.

Note 20. Subsequent Event

In July 2006, Viad announced its intent, under an authorization by its Board of Directors, to repurchase up to one million additional shares of its common stock from time to time at prevailing prices in the open market. This is in addition to the one million shares repurchased as discussed in Note 18 and an existing authorization to repurchase common stock for the purpose of replacing shares issued upon exercise of stock options and in connection with other stock compensation plans.

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

The following discussion should be read in conjunction with Viad Corp's consolidated financial statements and related notes. This discussion contains forward-looking statements that involve risks and uncertainties. Viad Corp's actual results could differ materially from those anticipated due to various factors discussed under "Forward-Looking Statements" and elsewhere in this quarterly report.

Overview:

Viad Corp (Viad or the Company) operates in three reportable business segments as follows:

GES GES Exposition Services, Inc. (GES) and its affiliates provide exhibition and event services throughout North America consisting of: show planning and production; floor plan design and layout; decorating, graphics and signage, and furniture, carpet and fixture procurement and rental. These services are provided to a variety of show organizers, including venues, trade associations and show management companies. GES's customer base also includes exhibitors for which GES provides exhibit design, construction, refurbishment, storage and rental services, including related show services such as logistics and transportation; material handling, electrical, plumbing, rigging and cleaning, and exhibit installation and dismantling.

Exhibitgroup Exhibitgroup/Giltspur (Exhibitgroup) and its affiliates specialize in the custom design, construction, installation and warehousing of convention and event exhibits and displays, primarily for corporate customers in North America, and to a lesser extent in Europe. Exhibitgroup offers exhibit design and construction and exhibit program management services for clients in varied industries that participate in exhibitions, corporate and specialty events, road shows and other "face-to-face" marketing. Exhibitgroup also refurbishes and leases exhibits, designs and builds kiosks and permanent displays, and provides exhibit transportation, installation, dismantling and warehousing services.

Travel and Recreation Services Brewster Transport Company Limited (Brewster) provides tourism services in the Canadian Rockies in Alberta and in other parts of Western Canada. Brewster's operations include the Banff Gondola, Columbia Icefield Ice Explorer Tours, motorcoach services, charter and package tours and other sightseeing services, hotel operations and travel agencies. Glacier Park, Inc. (Glacier Park) operates four historic lodges and three motor inns and provides food and beverage operations, retail operations and tour and transportation services in and around Glacier National Park in Montana and Waterton Lakes National Park in Alberta, Canada. Glacier Park is an 80 percent owned subsidiary of Viad.

The following are financial highlights of the second quarter of 2006 as compared to the second quarter of 2005 that are presented in accordance with accounting principles generally accepted in the United States of America (GAAP):

Viad Corp (Consolidated)

Total revenues of \$237.4 million, a 4.6 percent increase from 2005

Net income of \$28.3 million versus \$11.1 million in 2005

Diluted income per share of \$1.30 versus \$0.50 in 2005

Income from discontinued operations of \$9.7 million, which included \$7.4 million (\$11.8 million pre-tax) related to the expiration of product warranty liabilities associated with a previously sold manufacturing operation and \$2.3 million primarily related to tax matters associated with previously sold operations

Cash and cash equivalents totaled \$160.8 million as of June 30, 2006

Debt was \$15.6 million as of June 30, 2006

Viad repurchased 585,600 shares of its common stock for \$18.5 million

GES

Revenues of \$169.3 million, an increase of 12.6 percent from 2005

Segment operating income of \$18.4 million, an increase of 13.7 percent from 2005

Exhibitgroup

Revenues of \$46.9 million, a decrease of 19.9 percent from 2005

Segment operating income of \$2.7 million, an increase of 34.9 percent from 2005

Travel and Recreation Services

Revenues of \$21.2 million, an increase of 17.0 percent from 2005

Segment operating income of \$4.8 million, an increase of 14.6 percent from 2005

Table of Contents**Non-GAAP Measures:**

The following discussion includes a presentation of Adjusted EBITDA and Income before impairment losses and recoveries which are utilized by management to measure the profit and performance of Viad's operations and to facilitate period to period comparisons. Adjusted EBITDA is defined by Viad as net income before interest expense, income taxes, depreciation and amortization, impairment losses and recoveries, changes in accounting principles and the effects of discontinued operations. Adjusted EBITDA is considered a useful operating metric as potential variations arising from taxes, depreciation, debt service costs, impairment losses and recoveries, changes in accounting principles and the effects of discontinued operations are eliminated, thus resulting in an additional measure considered to be indicative of Viad's ongoing operations. Adjusted EBITDA is also used by management to assess Viad's ability to service debt, fund capital expenditures and finance growth. Income before impairment losses and recoveries is defined by Viad as income from continuing operations before the after-tax effect of impairment losses and recoveries and is utilized by management to review operating results of the business without the effects of impairment losses or recoveries. The presentation of Adjusted EBITDA and Income before impairment losses and recoveries is supplemental to results presented under GAAP and may not be comparable to similarly titled measures used by other companies. These non-GAAP measures should be considered in addition to, but not a substitute for, other measures of financial performance and liquidity reported in accordance with GAAP.

Management believes that the presentation of Adjusted EBITDA and Income before impairment losses and recoveries provides useful information to investors regarding Viad's results of operations for trending, analyzing and benchmarking the performance and value of Viad's business. Management uses Adjusted EBITDA and Income before impairment losses and recoveries primarily as performance measures and believes that the GAAP financial measures most directly comparable to these non-GAAP measures are net income and income from continuing operations, respectively. Although Adjusted EBITDA is used as a financial measure to assess the performance of the business, the use of Adjusted EBITDA is limited because it does not consider material costs, expenses and other items necessary to operate the business. These items include debt service costs, non-cash depreciation and amortization expense associated with long-lived assets, expenses related to U.S. federal, state, local and foreign income taxes, impairment losses or recoveries, and the effects of accounting changes and discontinued operations. Similarly, although Income before impairment losses and recoveries is used as a financial measure to assess the performance of the business, its use is limited because it does not consider impairment losses or recoveries. Because Adjusted EBITDA and Income before impairment losses and recoveries do not consider the above items, a user of Viad's financial information should consider net income and income from continuing operations, respectively, as important measures of financial performance because they provide more complete measures of the Company's performance.

A reconciliation of Adjusted EBITDA to net income is as follows:

| | Three months ended June | | Six months ended June | |
|--|--------------------------------|-------------|------------------------------|-------------|
| | 30, | 30, | 30, | 30, |
| | 2006 | 2005 | 2006 | 2005 |
| | (in thousands) | | | |
| Adjusted EBITDA | \$ 30,171 | \$ 25,488 | \$ 56,253 | \$ 52,627 |
| Interest expense | (409) | (602) | (775) | (1,159) |
| Income tax expense | (5,977) | (8,391) | (13,956) | (16,554) |
| Depreciation and amortization | (5,202) | (5,409) | (10,025) | (11,403) |
| Impairment recoveries | | | 843 | |
| Income (loss) from discontinued operations | 9,679 | 59 | 9,530 | (168) |
| Net income | \$ 28,262 | \$ 11,145 | \$ 41,870 | \$ 23,343 |

The increase in Adjusted EBITDA of \$4.7 million for the second quarter of 2006 compared to the second quarter of 2005 was driven by higher segment operating income at GES and higher interest income and, to a lesser extent, higher segment operating income at Exhibitgroup and Travel and Recreation Services as well as restructuring recoveries. The increase in Adjusted EBITDA of \$3.6 million for the six months ended June 30, 2006 compared to

2005 was primarily due to the gain on sale of certain corporate assets, higher interest income and higher segment operating income at Travel and Recreation Services. Partially offsetting this was lower segment operating income at GES and Exhibitgroup.

A reconciliation of Income before impairment losses and recoveries to income from continuing operations is as follows:

| | Three months ended June | | Six months ended June | |
|--|--------------------------------|-------------|------------------------------|-------------|
| | 30, | | 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| | (in thousands) | | | |
| Income before impairment losses and recoveries | \$ 18,583 | \$ 11,086 | \$ 31,832 | \$ 23,511 |
| Impairment recoveries, net of tax | | | 508 | |
| Income from continuing operations | \$ 18,583 | \$ 11,086 | \$ 32,340 | \$ 23,511 |

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See Results of Operations below for a discussion of fluctuations in Income before impairment losses and recoveries.

Results of Operations:**Comparison of Second Quarter of 2006 to the Second Quarter of 2005**

In the second quarter of 2006, revenues increased 4.6 percent to \$237.4 million from \$227.0 million in the second quarter of 2005. The increase was primarily due to strong same-show growth and improved exhibitor discretionary revenue at GES, partially offset by negative show rotation at Exhibitgroup. Income before income taxes was \$24.6 million for the second quarter of 2006, compared to \$19.5 million in the second quarter of 2005. Viad's income from continuing operations for the second quarter of 2006 was \$18.6 million, or \$0.86 per diluted share, up from \$11.1 million, or \$0.50 per diluted share, in the second quarter of 2005. This improvement was largely the result of favorable tax settlements of \$3.2 million, or \$0.15 per diluted share, and improved operating results from all operating segments.

Net income for the second quarter of 2006 was \$28.3 million, or \$1.30 per diluted share, including income from discontinued operations of \$9.7 million, or \$0.44 per diluted share, of which \$7.4 million (\$11.8 million pre-tax) related to the expiration of product warranty liabilities associated with a previously sold manufacturing operation and \$2.3 million primarily related to tax matters associated with previously sold operations. This compares to net income of \$11.1 million, or \$0.50 per diluted share, in the second quarter of 2005, which included income from discontinued operations of \$59,000 related to tax matters associated with previously sold operations.

GES. Revenues for GES were \$169.3 million for the second quarter of 2006, up 12.6 percent from \$150.4 million in the second quarter of 2005. The increase resulted from strong same-show growth and improved exhibitor discretionary revenue driven by the Products and Services group.

Segment operating income was \$18.4 million in the second quarter of 2006, up 13.7 percent from \$16.1 million in the second quarter of 2005. Operating margins were up slightly at 10.8 percent in 2006 compared to 10.7 percent in 2005. The increase in operating income was primarily due to the growth in revenue, partially offset by an increase in certain performance-based incentive accruals.

In general, the exhibition and event industry is experiencing signs of modest growth in terms of square footage and number of exhibitors. Management believes that further improvements in the economy and corporate earnings could lead to increased show spending. The prospects for individual shows tend to be driven by the success of the industry related to those shows. GES has a diversified revenue base and is generally insulated from industry-specific trends.

Material handling revenue, a key driver in the official services contractor business model, can be affected by the weight of exhibits and products that are brought onto the show floor. In prior years, GES experienced pressure on material handling margins due to a trend toward lighter-weight exhibits and fewer products. While this trend does not appear to have reversed, GES has experienced a stabilization of material handling revenue relative to 2005. Increases or decreases in the mix of material handling revenue could affect future operating margins. Management continues to emphasize cost containment, productivity improvements and revenue growth through greater market penetration into exhibitor elective spending. Management is also pursuing price increases, including a petroleum surcharge.

GES and Exhibitgroup are subject to multiple collective bargaining agreements that affect labor costs, about one-third of which expire each year. Although labor relations between the companies and labor are currently stable, disruptions during future contract negotiations could occur, with the possibility of an adverse impact on the operating results of GES and/or Exhibitgroup.

Exhibitgroup. Revenues for Exhibitgroup were \$46.9 million, down 19.9 percent in the second quarter of 2006 from \$58.5 million in the second quarter of 2005. The decline in revenue was primarily due to negative show rotation of a European air show, which took place in the second quarter of 2005, but occurs in the third quarter of 2006.

Segment operating income was \$2.7 million in the second quarter of 2006 compared to \$2.0 million in 2005. Exhibitgroup's operating results increased in the second quarter of 2006 due to the continued reduction of fixed and other costs, including legal fees, and an improvement in gross margin. Legal fees in the second quarter of 2005, related to the kiosk business litigation, totaled \$2.3 million. This litigation was settled in July 2005.

Many of Exhibitgroup's clients continue to reuse or refurbish existing exhibits rather than placing orders for new construction. Visibility over revenues continues to be poor and a sustained increase in customer marketing spending

on new exhibit construction has not materialized to date. Additionally, 2006 revenue at Exhibitgroup has been negatively impacted by the rotation out of a major trade show during the first quarter and the loss of revenue from certain clients who were not re-signed. To-date, Exhibitgroup has not realized revenue growth from other clients that is sufficient to offset these negative factors and, as a result, management expects 2006 full year revenue to decline from 2005. If the prolonged weakness in demand for new exhibits continues, future revenues could decline and operating income could be similarly affected. Management is focused on profitable revenue growth, cost control and productivity enhancements in order to improve profitability.

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Travel and Recreation Services. Revenues of the travel and recreation businesses were \$21.2 million, an increase of 17.0 percent from \$18.1 million in the second quarter of 2005. Segment operating income was \$4.8 million for the second quarter of 2006, an increase of 14.6 percent from \$4.2 million in 2005. In the second quarter of 2006, Brewster saw growth in passenger volume at the Banff Gondola and an increase in occupancy at the Mount Royal Hotel. In addition, Glacier Park realized an increase in the number of rooms occupied.

During 2005, approximately 75 percent of revenue and 84 percent of operating income generated in Viad's Travel and Recreation Services segment was derived through its Canadian operations. These operations are largely dependent on foreign customer visitation, and accordingly, increases in the value of the Canadian dollar compared to other currencies could adversely affect customer volumes, and therefore, revenue and operating income in the Travel and Recreation Services segment.

The operating results related to Viad's Canadian subsidiaries were translated into U.S. dollars at weighted-average exchange rates of 0.90 and 0.80 for the second quarter of 2006 and 2005, respectively. Accordingly, Viad's consolidated results of operations have been favorably impacted by the strengthening of the Canadian dollar relative to the U.S. dollar as it relates to the translation of its Canadian operations. Decreases in the exchange rates may adversely impact overall expected profitability and historical period to period comparisons when operating results are translated into U.S. dollars.

Glacier Park operates the concession portion of its business under a 25-year concession contract with the U.S. National Park Service (the Park Service) for Glacier National Park and a 42-year lease with the Canadian Government for Waterton Lakes National Park. Glacier Park's lease with the Canadian Government expires in 2010, with Glacier Park having an option to renew for two additional terms of 42 years each. The concession contract with the Park Service expires in December 2006 as the Park Service exercised its right to extend the contract that was to expire on December 31, 2005 for a one-year period and, in its sole discretion, may extend Glacier Park's concession contract for up to two additional years. At the time the Park Service begins the request for proposal process for the Glacier National Park concession contracts, Glacier Park intends to submit a proposal. Contract terms of 10, 15 or 20 years are possible, with a contract of 15 years being the most likely. If Glacier Park's contract expires and a new concessionaire is selected by the Park Service, Glacier Park's business would consist of the operations at Waterton Lakes National Park and East Glacier, Montana, which are not part of the Park Service concession contract. In such a circumstance, Glacier Park would be entitled to an amount equal to its possessory interest, which generally means the value of the structures acquired or constructed, fixtures installed and improvements made to the concession property at Glacier National Park during the term of the concessions contract, based on the reconstruction cost of a new unit of like kind, less physical depreciation, but not to exceed fair market value. Glacier Park approximated 21 percent of Travel and Recreation Services' full year 2005 operating income.

Net Interest Income. Net interest income of \$1.5 million in the second quarter of 2006 increased from \$262,000 in the second quarter of 2005. The increase was primarily driven by higher interest rates and higher average cash balances, as well as from interest recoveries of \$217,000 associated with income tax refunds received during the second quarter of 2006.

Income Taxes. The effective tax rate on income from continuing operations in the second quarter of 2006 was 24.3 percent compared to 43.1 percent for the second quarter of 2005. The lower rate in the second quarter of 2006 was primarily due to \$3.2 million of favorable tax settlements.

Comparison of First Six Months of 2006 to the First Six Months of 2005

Revenues for the first six months of 2006 decreased 1.1 percent to \$471.2 million from \$476.5 million in 2005. The decrease was primarily driven by negative show rotation from several large shows at GES and Exhibitgroup and from certain Exhibitgroup clients who were not re-signed, which was mostly offset by strong same-show growth and improvement in exhibitor discretionary revenue at GES. Income before income taxes was \$46.3 million for the first six months of 2006 compared with \$40.1 million for the comparable period in 2005, up 15.6 percent. Income from continuing operations for the first six months of 2006 was \$32.3 million, or \$1.47 per diluted share, up from \$23.5 million, or \$1.06 per diluted share, in the first six months of 2005. This improvement was primarily driven by favorable tax settlements of \$4.2 million, or \$0.19 per diluted share, gains from the sale of certain corporate assets of \$2.2 million after-tax, or \$0.10 per diluted share, and higher interest income. Net income for the first six months of

2006 was \$41.9 million, or \$1.91 per diluted share, compared to \$23.3 million, or \$1.05 per diluted share, for the first six months of 2005. Net income for 2006 included income from discontinued operations of \$9.5 million, or \$0.44 per diluted share, which consisted of \$7.4 million (\$11.8 million pre-tax) related to the expiration of product warranty liabilities associated with a previously sold manufacturing operation and \$2.2 million primarily related to tax matters associated with previously sold operations. Net income for the 2005 period included a loss from discontinued operations of \$168,000 relating to tax matters associated with previously sold operations.

GES. Revenues for GES were \$363.5 million for the first six months of 2006, an increase of 4.2 percent from the 2005 amount of \$348.8 million. The increase largely reflects strong same-show growth and improvement in exhibitor discretionary revenue led by the Products and Services group. Segment operating income was \$40.8 million in the first six months of 2006,

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down 4.9 percent from \$42.9 million in the 2005 period. Operating margins were 11.2 percent in the first six months of 2006 as compared to 12.3 percent in the first six months of 2005. The decrease in operating income was primarily due to an increase in certain performance-based incentive accruals in the first half of 2006.

Exhibitgroup. Exhibitgroup's revenue was \$81.6 million for the first six months of 2006, a decrease of 22.2 percent from the 2005 amount of \$104.9 million. The decrease in revenue resulted primarily from negative show rotation and the loss of revenue from certain clients who were not re-signed. Segment operating loss in the first six months of 2006 was \$350,000, versus segment operating income of \$157,000 in the first six months of 2005. The loss in 2006 compared to income in 2005 was largely due to decreased revenue. The 2006 period did have lower fixed and other costs, including legal fees compared to 2005. Legal fees in the first six months of 2005, related to the kiosk business litigation, totaled \$4.8 million. This litigation was settled in July 2005.

Travel and Recreation Services. Revenues of the Travel and Recreation Services segment were \$26.1 million in the first six months of 2006, an increase of 14.3 percent from \$22.8 million in 2005. Segment operating income was \$3.1 million for the first six months of 2006, compared with \$2.0 million for the first six months of 2005. Operating margins increased to 11.8 percent in the first six months of 2006 from 8.8 percent in the first six months of 2005. In the first half of 2006, Brewster saw growth in passenger volume at the Banff Gondola and an increase in occupancy at the Mount Royal Hotel.

During 2005, approximately 75 percent of revenue and 84 percent of operating income generated in Viad's Travel and Recreation Services segment was derived through its Canadian operations. These operations are largely dependent on foreign customer visitation, and accordingly, increases in the value of the Canadian dollar compared to other currencies could adversely affect customer volumes, and therefore, revenue and operating income in the Travel and Recreation Services segment.

The operating results related to Viad's Canadian subsidiaries were translated into U.S. dollars at weighted-average exchange rates of 0.91 and 0.80 for the first six months of 2006 and 2005, respectively. Accordingly, Viad's consolidated results of operations have been favorably impacted by the strengthening of the Canadian dollar relative to the U.S. dollar as it relates to the translation of its Canadian operations. Decreases in the exchange rates may adversely impact overall expected profitability and historical period to period comparisons when operating results are translated into U.S. dollars.

Corporate Activities and Minority Interest. Corporate activities and minority interest expense totaled \$5.1 million in the first six months of 2006 compared to \$5.8 million in the first six months of 2005. The decrease was primarily due to lower travel related costs and lower insurance and other administrative costs.

Net Interest Income. Net interest income of \$3.0 million in the first six months of 2006 increased from \$412,000 in the first six months of 2005. The increase was primarily driven by higher interest rates and higher average cash balances, as well as from interest recoveries of \$658,000 associated with income tax refunds received during the first six months of 2006.

Income Taxes. The effective tax rate on income from continuing operations in the first six months of 2006 was 30.1 percent compared to 41.3 percent for the first six months of 2005. The lower rate in 2006 was primarily due to \$4.2 million of favorable tax settlements in the first six months of 2006.

Liquidity and Capital Resources:

Cash and cash equivalents were \$160.8 million as of June 30, 2006 as compared to \$152.6 million as of December 31, 2005, with the increase primarily due to cash flow from operations and the proceeds from the sale of certain corporate assets, substantially offset by share repurchases and capital expenditures, as discussed below. Management believes that Viad's existing sources of liquidity will be sufficient to fund operations and capital commitments for at least the next 12 months.

Viad's total debt as of June 30, 2006 was \$15.6 million compared with \$17.4 million as of December 31, 2005. The debt-to-capital ratio was 0.035 to 1 as of June 30, 2006 compared with 0.041 to 1 as of December 31, 2005. Capital is defined as total debt plus minority interest and common stock and other equity.

Effective June 15, 2006, Viad amended and restated its \$150 million secured revolving credit agreement dated June 30, 2004. The term of the amended and restated revolving credit agreement (the "Credit Facility") is five years (expiring on June 15, 2011) and borrowings are to be used for general corporate purposes (including permitted

acquisitions) and to support up to \$75 million of letters of credit. The Credit Facility may be increased up to an additional \$75 million under certain circumstances. The lenders have a first perfected security interest in all of the personal property of Viad and GES, including 65 percent of the capital stock of top-tier foreign subsidiaries. Borrowings under the Credit Facility (of which GES is a guarantor) are indexed to the prime rate or the London Interbank Offering Rate (LIBOR), plus appropriate spreads tied to Viad s leverage ratio. Commitment fees and letters of credit fees are also tied to Viad s leverage ratio. As of June 30, 2006, Viad had an outstanding borrowing of \$10.7 million under the Credit Facility. Financial covenants include a minimum consolidated net worth requirement of not less than \$344.6 million plus 50 percent of positive quarterly consolidated net income earned in each fiscal quarter beginning with the quarter ended June 30, 2006, a fixed-charge coverage ratio of not less than 1.25 to 1 and a leverage ratio (defined as total debt to Adjusted EBITDA) of not greater than 2.75 to 1. Significant other covenants include limitations on: investments, common stock

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dividends, stock repurchases, additional indebtedness, sales/leases of assets, acquisitions, consolidations or mergers and liens on property. As of June 30, 2006, Viad was in compliance with all covenants.

In May 2006, Viad repaid its 10.5 percent subordinated debentures outstanding of \$1.3 million pursuant to their scheduled maturity.

Under a Shelf Registration filed with the Securities and Exchange Commission (the SEC), Viad can issue up to an aggregate \$500 million of debt and equity securities. No securities have been issued under the program.

Capital expenditures for the six months ended June 30, 2006 totaled \$10.4 million and primarily related to manufacturing and other equipment and information systems and related costs. For the six months ended June 30, 2005, capital expenditures totaled \$10.6 million and primarily related to the purchase of new tour buses at Brewster, certain leasehold improvements, information systems and related costs, and manufacturing and other equipment.

In January 2005, Viad sold a 50 percent interest in its corporate aircraft to a former subsidiary, MoneyGram International, Inc. (MoneyGram) for \$8.6 million in cash, resulting in no gain or loss in connection with the transaction. In January 2006, Viad sold its remaining 50 percent interest in the aircraft along with related equipment to MoneyGram for \$10.0 million in cash, resulting in a gain of \$1.7 million.

Also in January 2006, Viad sold certain undeveloped land in Phoenix, Arizona for \$2.9 million in cash to an unrelated third party, resulting in a gain of \$1.7 million.

During the six months ended June 30, 2006, Viad repurchased one million shares of its common stock for \$31.8 million. In July 2006, Viad announced its intent to repurchase an additional one million shares from time to time at prevailing prices in the open market, under an authorization by the Company's Board of Directors. Subsequent to June 30, 2006 and prior to the filing of this quarterly report, Viad repurchased an additional 19,500 shares for \$645,000. See Part II, Item 2 for details of shares repurchased during the six months ended June 30, 2006. Viad also has the authority to repurchase common stock for the purpose of replacing shares issued upon exercise of stock options and in connection with other stock compensation plans. The last repurchase by Viad under this program was May 2003.

Viad and certain of its subsidiaries are plaintiffs or defendants to various actions, proceedings and pending claims, some of which involve, or may involve, compensatory, punitive or other damages. Litigation is subject to many uncertainties and it is possible that some of the legal actions, proceedings or claims could be decided against Viad. Although the amount of liability as of June 30, 2006 with respect to certain of these matters is not ascertainable, Viad believes that any resulting liability, after taking into consideration amounts already provided for, including insurance coverage, will not have a material effect on Viad's business, financial position or results of operations.

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

Off-Balance Sheet Arrangements:

Viad does not have any off-balance sheet transactions or arrangements with unconsolidated special-purpose or other entities that would affect the Company's financial position, results of operations, liquidity or capital resources. Furthermore, Viad does not have any relationships with special-purpose or other entities that provide off-balance sheet financing; liquidity, market risk or credit risk support; or engage in leasing or other services that expose the Company to liability or risks of loss that are not reflected in Viad's consolidated financial statements.

Critical Accounting Policies and Estimates:

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements. The SEC has defined a company's most critical accounting policies as those that are most important to the portrayal of a company's financial position and results of operations, and that

require a company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on these criteria, Viad has identified and discussed with its audit committee the following critical accounting policies and estimates pertaining to Viad, and the methodology and disclosures related to those estimates:

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Goodwill and other intangible assets Viad performs annual impairment testing of its goodwill based on the estimated fair value of its reporting units, which is estimated based on discounted expected future cash flows using a weighted-average cost of capital rate. Additionally, an assumed terminal value is used to project future cash flows beyond base years. The estimates and assumptions regarding expected cash flows, terminal values and the discount rate require considerable judgment and are based on historical experience, financial forecasts and industry trends and conditions. Viad's policy is to test goodwill for impairment annually as of October 31 of each year. As of June 30, 2006, Viad had recorded goodwill of \$150.1 million and \$36.5 million related to GES and Travel and Recreation Services, respectively.

Viad also performs annual impairment testing of its intangible assets not subject to amortization. As of June 30, 2006, Viad had intangible assets with indefinite lives of \$5.2 million, which primarily consisted of a trademark intangible related to Exhibitgroup. The fair value of the trademark intangible is estimated based on expected future cash flows. Viad's policy is to test intangible assets not subject to amortization for impairment annually as of October 31 of each year.

Income taxes Viad is required to estimate and record provisions for income taxes in each of the jurisdictions in which the Company operates. Accordingly, the Company must estimate its actual current income tax liability, and assess temporary differences arising from the treatment of items for tax purposes as compared to the treatment for accounting purposes. These differences result in deferred tax assets and liabilities which are included in Viad's consolidated balance sheets. The Company must assess the likelihood that deferred tax assets will be recovered from future taxable income and to the extent that recovery is not likely, a valuation allowance must be established. As of June 30, 2006 and December 31, 2005, Viad had gross deferred tax assets of \$67.9 million and \$76.0 million, respectively. Viad does not have a valuation allowance related to deferred tax assets as management believes that recovery from future taxable income is more likely than not.

Viad is subject to regular and recurring audits by the taxing authorities in the jurisdictions in which the Company conducts or had previously conducted significant operations. Accordingly, the Company has recorded accrued liabilities associated with specific U.S. federal, state, local and foreign tax audit exposures expected to arise in connection with such audits. As of June 30, 2006 and December 31, 2005, Viad had \$29.3 million and \$36.0 million, respectively, accrued for these exposures, which includes accrued interest. If amounts accrued are less than amounts ultimately assessed by the taxing authorities, Viad would record additional income tax expense in the period in which the assessment is determined. To the extent that the Company has favorable settlements, or determines that reserves are no longer needed, such liabilities would be reversed as a reduction of income tax expense (net of federal tax effects, if applicable), or in some cases through discontinued operations, in the period such determination is made. Viad's policy is to retain amounts accrued for tax audit exposures until final resolution or settlement with the appropriate taxing authority. Based on tax audits in process and other factors, management currently estimates that tax issues of approximately \$4.0 million (exclusive of any federal tax effects) could potentially be resolved or settled during the remainder of 2006 resulting in a decrease of accrued income taxes. To the extent these tax resolutions or settlements occur, they would result in cash payments and/or the reversal of accrued income taxes which may include amounts related to previously discontinued operations. During the three and six months ended June 30, 2006, Viad recorded favorable tax settlements in continuing operations of \$3.2 million and \$4.2 million, respectively. These settlements resulted in a decrease to income tax expense. See Note 19 of notes to consolidated financial statements for a discussion of tax matters related to discontinued operations.

In addition to the specific tax audit exposures for which Viad has recorded loss liabilities, there are other known tax audit exposures which have been identified in recent and ongoing tax audits for which Viad has not recorded contingent liabilities as potential losses related to those specific issues are not deemed probable. To the extent that the facts and circumstances related to these known tax audit exposures indicate that an unfavorable outcome is probable and can be reasonably estimated, Viad would record accrued liabilities and additional income tax expense in the period for which that assessment is determined. For the specific issues for which Viad can reasonably estimate a range of possible loss, the aggregate decrease to net income could range from \$500,000 to \$2.0 million.

Insurance liabilities Viad is self-insured up to certain limits for workers' compensation, automobile, product and general liability and property loss claims. The aggregate amount of insurance liabilities related to Viad's continuing

operations was \$20.2 million as of June 30, 2006. Of this total, \$14.1 million related to workers' compensation liabilities and the remaining \$6.1 million related to general/auto liability claims. Viad has also retained and provided for certain insurance liabilities in conjunction with previously sold businesses totaling \$12.8 million as of June 30, 2006, primarily related to workers' compensation liabilities. Provisions for losses for claims incurred, including estimated claims incurred but not yet reported, are made based on Viad's historical experience, claims frequency and other factors. A change in the assumptions used could result in an adjustment to recorded liabilities. Viad has purchased insurance for amounts in excess of the self-insured levels, which generally range from \$200,000 to \$500,000 on a per claim basis. Viad does not maintain a self-insured retention pool fund as claims are paid from current cash resources at the time of settlement. Viad's net cash payments in connection with these insurance liabilities were \$2.8 million and \$2.5 million for the six months ended June 30, 2006 and 2005, respectively.

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Pension and other postretirement benefits Viad's pension plans use traditional defined benefit formulas based on years of service and final average compensation. Funding policies provide that payments to defined benefit pension trusts shall be at least equal to the minimum funding required by applicable regulations. The Company presently anticipates making no contribution to its funded pension plans and contributing \$547,000 to its unfunded pension plans in 2006.

Viad and certain of its subsidiaries have defined benefit postretirement plans that provide medical and life insurance for certain eligible employees, retirees and dependents. The related postretirement benefit liabilities are recognized over the period that services are provided by employees. In addition, Viad retained the obligations for these benefits for retirees of certain sold businesses. While the plans have no funding requirements, Viad expects to contribute approximately \$600,000 to the plans in 2006.

The assumed health care cost trend rate used in measuring the 2005 accumulated postretirement benefit obligation was nine percent in the year 2005, declining one percent each year to the ultimate rate of five percent by the year 2009 and remaining at that level thereafter. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 2005 by approximately \$1.9 million and the total of service and interest cost components by approximately \$128,000. A one-percentage-point decrease in the assumed health care cost trend rate for each year would decrease the accumulated postretirement benefit obligation as of December 31, 2005 by approximately \$1.7 million and the total of service and interest cost components by approximately \$112,000.

The weighted-average discount rate used to determine pension and other postretirement benefit obligations as of December 31, 2005 was 5.50 percent. The weighted-average discount rate used to determine net periodic benefit cost for the year ended December 31, 2005 was 5.75 percent. The discount rate used in determining future pension and other postretirement benefit obligations is based on rates determined by actuarial analysis and management review. The expected return on plan assets used to determine net periodic pension benefit cost for the year ended December 31, 2005 was 8.75 percent. The expected return on plan assets used to determine net periodic other postretirement benefit cost for the year ended December 31, 2005 was 3.75 percent.

Share-based compensation Viad adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, on January 1, 2006 using the modified prospective application method. Refer to Note 2 of notes to consolidated financial statements for a full discussion of the adoption of SFAS No. 123(R) and related disclosures.

Impact of Recent Accounting Pronouncements:

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs (an amendment of Accounting Research Bulletin No. 43, Chapter 4). SFAS No. 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. SFAS No. 151 also requires that the allocation of fixed production overhead costs be based on the normal capacity of the production facility. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after July 15, 2005. The adoption of SFAS No. 151 did not have a material impact on Viad's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which replaces Accounting Principles Board Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle (unless a different method is prescribed by the new standard) and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not affect Viad's financial position or results of operations.

Viad adopted the provisions of SFAS No. 123(R) on January 1, 2006 using the modified prospective application method. Refer to Note 2 of notes to consolidated financial statements for a full discussion of the adoption of SFAS No. 123(R) and related disclosures.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 provides guidance on how to address uncertainty in accounting for income tax assets and liabilities and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under FIN 48, the recognition of current and deferred income taxes is determined based on whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The

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tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, Viad will adopt the provisions of FIN 48 on January 1, 2007. The Company is currently evaluating the potential impact of FIN 48 on Viad's financial position and results of operations. Furthermore, the Company believes the adoption of FIN 48 could have a material effect on the amounts of current and deferred income tax assets and liabilities reported in Viad's consolidated balance sheets. The cumulative effect of applying the provisions of FIN 48 will generally be reported as an adjustment to the opening balance of retained earnings in the fiscal year of adoption.

Forward-Looking Statements:

As provided by the safe harbor provision under the Private Securities Litigation Reform Act of 1995, Viad cautions readers that, in addition to historical information contained herein, this quarterly report includes certain information, assumptions and discussions that may constitute forward-looking statements. These forward-looking statements are not historical facts, but reflect current estimates, projections, expectations, or trends concerning future growth, operating cash flows, availability of short-term borrowings, consumer demand, new business, investment policies, productivity improvements, ongoing cost reduction efforts, efficiency, competitiveness, legal expenses, tax rates and other tax matters, foreign exchange rates, and the realization of restructuring cost savings. Actual results could differ materially from those discussed in the forward-looking statements. Viad's businesses can be affected by a host of risks and uncertainties. Among other things, natural disasters, gains and losses of customers, consumer demand patterns, labor relations, purchasing decisions related to customer demand for exhibition and event services, existing and new competition, industry alliances, consolidation and growth patterns within the industries in which Viad competes, adverse developments in liabilities associated with discontinued operations, any deterioration in the economy and other risks discussed in Risk Factors in the risk factors sections included in Viad's 2005 Annual Report and in this quarterly report, may individually or in combination impact future results. In addition to factors mentioned elsewhere, economic, competitive, governmental, technological, capital marketplace and other factors, including further terrorist activities or war and international conditions, could affect the forward-looking statements in this quarterly report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Viad's market risk exposures relate to fluctuations in foreign exchange rates, interest rates and certain commodity prices. Foreign exchange risk is the risk that fluctuating exchange rates will adversely affect financial condition or results of operations. Interest rate risk is the risk that changing interest rates will adversely affect the earnings of Viad. Commodity risk is the risk that changing prices will adversely affect results of operations.

Viad conducts its foreign operations primarily in Canada, and to a lesser extent in certain European countries. The functional currency of Viad's foreign subsidiaries is their local currency. Accordingly, for purposes of consolidation, Viad translates the assets and liabilities of its foreign subsidiaries into U.S. dollars at the foreign exchange rates in effect at the balance sheet date. The unrealized gains or losses resulting from the translation of these foreign denominated assets and liabilities are included as a component of accumulated other comprehensive income in Viad's consolidated balance sheets. As a result, significant fluctuations in foreign exchange rates relative to the U.S. dollar may result in material changes to Viad's net equity position reported in its consolidated balance sheets. Viad does not currently hedge its equity risk arising from the translation of foreign denominated assets and liabilities. Viad had cumulative unrealized foreign currency translation gains recorded in equity of \$30.1 million and \$23.6 million as of June 30, 2006 and December 31, 2005, respectively. During the three and six months ended June 30, 2006, unrealized foreign currency translation gains of \$7.0 million and \$6.5 million were recorded in other comprehensive income, respectively. During the three and six months ended June 30, 2005, unrealized foreign currency translation losses of \$1.7 million and \$2.9 million were recorded in other comprehensive income, respectively.

In addition, for purposes of consolidation, the revenues, expenses, gains and losses related to Viad's foreign operations are translated into U.S. dollars at the average foreign exchange rates for the period. As a result, Viad's consolidated results of operations are exposed to fluctuations in foreign exchange rates as the operating results of its foreign subsidiaries, when translated, may vary from period to period, even when the functional currency amounts have not changed. Such fluctuations may adversely impact overall expected profitability and historical period to period comparisons. Viad does not currently hedge its net earnings exposure arising from the translation of its foreign

operating results. As noted above, Viad primarily conducts its foreign operations in Canada. Accordingly, the operating results related to its Canadian subsidiaries were translated into U.S. dollars at weighted-average exchange rates of 0.90 and 0.80 for the three months ended June 30, 2006 and 2005, respectively. The weighted-average exchange rates used to translate into U.S. dollars the operating results for the six months ended June 30, 2006 and 2005 were 0.91 and 0.80, respectively. Accordingly, Viad's consolidated results of operations have been favorably impacted by the strengthening of the Canadian dollar relative to the U.S. dollar as it relates to the translation of its Canadian operations.

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Viad is also exposed to foreign exchange transaction risk as its foreign subsidiaries have certain revenue transactions and related accounts receivable denominated in currencies other than the functional currency of the respective subsidiary. From time to time, Viad utilizes foreign currency forward contracts to mitigate the impact on earnings related to these transactions due to fluctuations in foreign exchange rates. The effect of changes in foreign exchange rates, net of the effect of the related forward contracts, has historically been immaterial to Viad's consolidated results of operations. As of June 30, 2006, Viad had aggregate contracts to sell U.S. dollars of \$5.0 million (notional amount) in exchange for Canadian dollars at an average contract rate of 1.13 (Canadian dollars per U.S. dollar), maturing on various dates through September 2007. In addition, as of June 30, 2006, Viad had aggregate contracts to sell U.S. dollars of \$1.6 million (notional amount) in exchange for British pounds at an average contract rate of 0.543 (British pounds per U.S. dollar), maturing on various dates through August 2006. As of June 30, 2006, the fair value of Viad's forward exchange contracts was \$91,000 and is included in the consolidated balance sheet under the caption "Other current assets."

Viad is exposed to short-term interest rate risk on certain of its debt obligations. Viad currently does not use derivative financial instruments to hedge cash flows for such obligations. As of June 30, 2006, Viad had variable rate debt outstanding of \$10.7 million under its secured revolving credit agreement. Interest payments related to Viad's variable rate debt outstanding are indexed to LIBOR. See Note 9 of notes to consolidated financial statements.

Viad's subsidiaries have exposure to changing fuel prices. Periodically, one of these subsidiaries enters into futures contracts with an oil company to purchase two types of fuel and specifies the monthly total volume, by fuel product, to be purchased over the agreed upon term of the contract, which is generally no longer than one year. The main objective of Viad's risk policy related to changing fuel prices is to reduce transaction exposure in order to mitigate the cash flow risk and protect profit margins. As of June 30, 2006, Viad had one fuel contract outstanding to purchase 244,000 gallons of diesel fuel at approximately \$2.29 per gallon (plus applicable taxes) expiring October 2006.

Item 4. Controls and Procedures.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer of Viad, the effectiveness of the design and operation of disclosure controls and procedures has been evaluated as of June 30, 2006, and, based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective as of June 30, 2006. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in such reports is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

During the second quarter of 2006, the Company completed the implementation of a new financial software application at GES which includes general ledger, accounts payable and fixed assets modules. The implementation of the new software was part of a planned systems upgrade at GES and was not made in response to any deficiency in the Company's internal controls. Except for the preceding change, there were no changes in the Company's internal control over financial reporting during the second quarter of 2006 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1A. Risk Factors.**

In addition to the risk factor set forth below and other information in this report, careful consideration should be given to the factors discussed in Item 1A., Risk Factors, in the Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect Viad's business, financial condition or future results.

Viad's foreign operations are impacted by changes in foreign currency exchange rates.

Viad conducts its foreign operations primarily in Canada, and to a lesser extent in certain European countries. The functional currency of Viad's foreign subsidiaries is their local currency. Accordingly, for purposes of consolidation, Viad translates the assets and liabilities of its foreign subsidiaries into U.S. dollars at the foreign exchange rates in effect at the balance sheet date. The unrealized gains or losses resulting from the translation of these foreign denominated assets and liabilities are included as a component of accumulated other comprehensive income in Viad's consolidated balance sheets. As a result, significant fluctuations in foreign exchange rates relative to the U.S. dollar may result in material changes to Viad's net equity position reported in its consolidated balance sheets. Viad does not currently hedge its equity risk arising from the translation of foreign denominated assets and liabilities.

In addition, for purposes of consolidation, the revenues, expenses, gains and losses related to Viad's foreign operations are translated into U.S. dollars at the average foreign exchange rates for the period. As a result, Viad's consolidated results of operations are exposed to fluctuations in foreign exchange rates as the operating results of its foreign subsidiaries, when translated, may vary from period to period, even when the functional currency amounts have not changed. While recently Viad's consolidated results of operations have been favorably impacted by the strengthening of the Canadian dollar relative to the U.S. dollar, future fluctuations in the exchange rates may adversely impact overall expected profitability, and historical period to period comparisons. Viad does not currently hedge its net earnings exposure arising from the translation of its foreign operating results.

During 2005, approximately 75 percent of revenue and 84 percent of operating income generated in Viad's Travel and Recreation Services segment was derived through its Canadian operations. These operations are largely dependent on foreign customer visitation, and accordingly, increases in the value of the Canadian dollar compared to other currencies could adversely affect customer volumes, and therefore, revenue and operating income in the Travel and Recreation Services segment.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Set forth below is a table showing the total number of shares of Viad common stock repurchased during the second quarter of 2006 by Viad either on the open market as part of a repurchase program or from employees and former employees surrendering previously owned Viad common stock (outstanding shares) to pay for a portion of the exercise price in connection with the exercise of stock options, or to pay the taxes in connection with the exercise of stock options or vesting of restricted stock or performance-based awards:

ISSUER PURCHASES OF EQUITY SECURITIES

| Period (1) | Total Number of Shares Purchased (#) | Average Price Paid Per Share (\$) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2),(3) |
|------------|--|--|--|--|
| | | | | |

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| | | | | |
|-----------|---------|-------|---------|---------|
| May 2006 | 449,450 | 31.75 | 449,450 | 136,150 |
| June 2006 | 136,150 | 31.31 | 136,150 | |
| Total | 585,600 | 31.65 | 585,600 | |

(1) Months with no share repurchases have been excluded from the table.

(2) In February 2006, Viad announced its intent, under a program authorized by its Board of Directors, to repurchase up to one million shares of Viad common stock from time to time at prevailing prices in the open market. These repurchases were completed by June 30, 2006. In July 2006, Viad announced its intent to repurchase an additional one million shares.

(3) Under authorization by the Board of Directors, Viad may also repurchase, at prevailing prices on the open market, its common stock

for the purpose
of replacing
shares issued
upon exercise of
stock options
and in
connection with
other stock
compensation
plans. The last
repurchase by
Viad under this
program
occurred in
May 2003.

Table of Contents**Item 4. Submission of Matters to a Vote of Security Holders.**

- (a) The annual meeting of stockholders of Viad Corp was held on May 16, 2006.
- (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:
- The election of Directors as follows:

| | Affirmative Vote | Vote Withheld |
|---|-----------------------------|--------------------------|
| Daniel Boggan Jr. | 16,870,260 | 2,149,817 |
| Robert H. Bohannon | 17,064,279 | 1,955,798 |
| Robert E. Munzenrider | 18,837,823 | 182,254 |
| 1. The appointment of Deloitte & Touche LLP as Viad's independent registered public accounting firm for fiscal year 2006: | | |
| Affirmative Vote | | 18,851,970 |
| Against | | 41,910 |
| Abstentions | | 126,197 |

Item 6. Exhibits.

- Exhibit No. 31.1 Certification of Chief Executive Officer of Viad Corp pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- Exhibit No. 31.2 Certification of Chief Financial Officer of Viad Corp pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- Exhibit No. 32.1 Certification of Chief Executive Officer of Viad Corp pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- Exhibit No. 32.2 Certification of Chief Financial Officer of Viad Corp pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith.

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.

VIAD CORP

(Registrant)

August 7, 2006

By /s/ G. Michael Latta

(Date)

G. Michael Latta

Vice President Controller
(Chief Accounting Officer
and Authorized Officer)

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