

VIAD CORP

FORM 10-Q (Quarterly Report)

Filed 11/5/2002 For Period Ending 9/30/2002

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2002
Commission file number 001-11015

VIAD CORP

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

36-1169950

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

1850 N. CENTRAL AVE., PHOENIX, ARIZONA

(Address of principal executive offices)

85077

(Zip Code)

Registrant's telephone number, including area code (602) 207-4000

Indicate by check mark whether the registrant (1) has filed all Exchange Act reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

As of September 30, 2002, 88,091,798 shares of Common Stock (\$1.50 par value) were outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF INCOME

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF
OPERATIONS AND FINANCIAL CONDITION

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 4. CONTROLS AND PROCEDURES

PART II. OTHER INFORMATION

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

SIGNATURES

CERTIFICATIONS

Exhibit Index

EX-4

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

VIAD CORP CONSOLIDATED BALANCE SHEETS

(000 omitted, except share data)	September 30, 2002 (Unaudited)	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,818	\$ 46,593
Short-term investments	63,459	118,021
Receivables	59,220	64,134
Inventories	45,477	55,682
Deferred income taxes	38,650	45,916
Other current assets	33,387	48,555
	<u>297,011</u>	<u>378,901</u>
Funds, agents' receivables and current maturities of investments restricted for payment service obligations	1,893,534	1,476,475
	<u>2,190,545</u>	<u>1,855,376</u>
Total current assets	2,190,545	1,855,376
Investments in securities	192,252	51,535
Investments restricted for payment service obligations	6,124,729	5,422,899
Property and equipment	250,648	260,480
Other investments and assets	73,614	67,715
Deferred income taxes	99,166	82,764
Goodwill	548,168	587,365
Other intangible assets	34,342	35,925
	<u>\$9,513,464</u>	<u>\$8,364,059</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term bank loans	\$ —	\$ 457
Accounts payable	73,002	60,913
Other current liabilities	234,504	203,702
Current portion of long-term debt	142,343	42,224
	<u>449,849</u>	<u>307,296</u>
Payment service obligations	7,629,880	6,649,722
	<u>8,079,729</u>	<u>6,957,018</u>
Total current liabilities	8,079,729	6,957,018
Long-term debt	238,824	354,147
Pension and other postretirement benefits	96,491	94,424
Derivative financial instruments	236,238	91,414
Other deferred items and insurance liabilities	127,761	135,420
Minority interests	8,726	5,284
\$4.75 Redeemable preferred stock	6,697	6,679
Common stock and other equity:		
Common stock, \$1.50 par value, 200,000,000 shares authorized, 99,739,925 shares issued	149,610	149,610
Additional capital	210,592	225,003
Retained income	800,521	762,008
Unearned employee benefits and other	(63,223)	(82,952)
Accumulated other comprehensive income:		

Unrealized gain on securities classified as available for sale	98,685	29,876
Unrealized loss on derivative financial instruments	(151,366)	(53,875)
Cumulative translation adjustments	(11,784)	(13,211)
Minimum pension liability adjustment	(13,739)	(13,739)
Common stock in treasury, at cost, 11,648,127 and 10,806,006 shares	(300,298)	(283,047)
Total common stock and other equity	718,998	719,673
	<u>\$9,513,464</u>	<u>\$8,364,059</u>

See Notes to Consolidated Financial Statements.

VIAD CORP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(000 omitted, except per share data)	Quarter ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Revenues	\$417,977	\$390,086	\$1,271,509	\$1,294,216
Costs and expenses:				
Costs of sales and services	362,031	352,911	1,106,467	1,154,154
Corporate activities and minority interests	6,390	2,353	18,241	11,033
Net interest expense	123	4,997	7,487	16,560
Restructuring charges and other items	(413)	67,370	(413)	96,644
	368,131	427,631	1,131,782	1,278,391
Income (loss) before income taxes and change in accounting principle	49,846	(37,545)	139,727	15,825
Income tax expense (benefit)	14,229	(21,781)	39,500	(10,122)
Income (loss) before change in accounting principle	35,617	(15,764)	100,227	25,947
Change in accounting principle, net of tax	—	—	(37,739)	—
NET INCOME (LOSS)	\$ 35,617	\$ (15,764)	\$ 62,488	\$ 25,947
DILUTED NET INCOME (LOSS) PER COMMON SHARE				
Income (loss) per share before change in accounting principle	\$ 0.41	\$ (0.19)	\$ 1.14	\$ 0.29
Change in accounting principle, net of tax	—	—	(0.43)	—
Net income (loss) per share	\$ 0.41	\$ (0.19)	\$ 0.71	\$ 0.29
Average outstanding and potentially dilutive common shares	86,616	85,560	86,961	86,347
BASIC NET INCOME (LOSS) PER COMMON SHARE				
Income (loss) per share before change in accounting principle	\$ 0.41	\$ (0.19)	\$ 1.15	\$ 0.29
Change in accounting principle, net of tax	—	—	(0.44)	—
Net income (loss) per share	\$ 0.41	\$ (0.19)	\$ 0.71	\$ 0.29
Average outstanding common shares	86,188	85,560	86,325	85,426
Dividends declared per common share	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27
Preferred stock dividends	\$ 285	\$ 285	\$ 855	\$ 853

See Notes to Consolidated Financial Statements.

VIAD CORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(000 omitted)	Quarter ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Net income (loss)	\$ 35,617	\$(15,764)	\$ 62,488	\$ 25,947
Other comprehensive income, net of tax:				
Unrealized gains on securities classified as available-for-sale:				
Statement of Financial Accounting Standards ("SFAS") No. 133 transition adjustment, effective January 1, 2001, resulting from the transfer of securities classified as held-to-maturity to securities classified as available-for-sale	—	—	—	3,772
Holding gains arising during the period	40,235	53,601	77,126	65,124
Reclassification adjustment for net realized gains included in net income	(4,864)	(1,814)	(8,317)	(6,281)
	35,371	51,787	68,809	62,615
Unrealized losses on derivative financial instruments:				
Cumulative effect of transition adjustment upon initial application of SFAS No. 133 on January 1, 2001	—	—	—	(7,501)
Holding losses arising during the period	(95,882)	(66,602)	(157,098)	(97,046)
Net reclassifications from other comprehensive income to net income	21,000	8,982	59,607	16,469
	(74,882)	(57,620)	(97,491)	(88,078)
Unrealized foreign currency translation adjustments:				
Holding gains (losses) arising during the period	(3,440)	(2,820)	1,427	(4,006)
Other comprehensive loss	(42,951)	(8,653)	(27,255)	(29,469)
Comprehensive income (loss)	\$ (7,334)	\$(24,417)	\$ 35,233	\$ (3,522)

See Notes to Consolidated Financial Statements.

VIAD CORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(000 omitted)	Nine months ended September 30,	
	2002	2001
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net income	\$ 62,488	\$ 25,947
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,720	52,582
Deferred income taxes	11,815	(6,634)
Change in accounting principle	40,000	—
Restructuring charges and other items	(413)	96,644
Other noncash items, net	(10,656)	(9,084)
Change in operating assets and liabilities:		
Receivables and inventories	9,765	33,792
Accounts payable	12,089	(17,914)
Other assets and liabilities, net	21,123	(15,059)
	<u>184,931</u>	<u>160,274</u>
Change in payment service assets and obligations, net	544,481	1,251,213
Net cash provided by operating activities	<u>729,412</u>	<u>1,411,487</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES:		
Capital expenditures	(27,940)	(36,259)
Proceeds from disposals of property and other assets, net of purchases	650	(556)
Proceeds from sales and maturities of securities	2,180,632	1,754,215
Purchases of securities	(2,813,348)	(3,048,231)
Net cash used by investing activities	<u>(660,006)</u>	<u>(1,330,831)</u>
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES:		
Payments on long-term borrowings	(1,386)	(26,203)
Net change in short-term borrowings	(15,457)	(17,272)
Dividends on common and preferred stock	(24,148)	(23,967)
Exercise of stock options	10,119	14,476
Common stock purchased for treasury	(28,309)	(34,622)
Net cash used by financing activities	<u>(59,181)</u>	<u>(87,588)</u>
Net increase (decrease) in cash and cash equivalents	10,225	(6,932)
Cash and cash equivalents, beginning of year	46,593	42,298
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 56,818</u>	<u>\$ 35,366</u>

See Notes to Consolidated Financial Statements.

VIAD CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A — Basis of Preparation

The Consolidated Financial Statements of Viad Corp (“Viad”) include the accounts of Viad and all of its subsidiaries. This information should be read in conjunction with the financial statements set forth in the Viad Corp Annual Report on Form 10-K for the year ended December 31, 2001.

Accounting policies utilized in the preparation of the financial information herein presented are the same as set forth in Viad’s annual financial statements except as modified for interim accounting policies which are within the guidelines set forth in Accounting Principles Board (“APB”) Opinion No. 28, “Interim Financial Reporting” and the adoption of Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets” and SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” as discussed in Note D. The interim consolidated financial information is unaudited. In the opinion of management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly Viad’s financial position as of September 30, 2002, and its results of operations and its cash flows for the quarters and nine months ended September 30, 2002 and 2001 have been included. Interim results of operations are not necessarily indicative of the results of operations for the full year.

Certain prior year amounts have been reclassified to conform with the 2002 presentation.

NOTE B — Assets Restricted for Payment Service Obligations

Viad’s Payment Services subsidiaries generate substantial cash balances from the sale of official checks, money orders and other payment instruments, with the related liabilities classified as “Payment service obligations.” Substantially all of the proceeds of such sales are invested in accordance with state regulations, principally in high-quality debt instruments. These investments, along with related cash and funds in transit, are restricted to the extent that they represent proceeds from the sale of payment instruments to satisfy the liability to pay, upon presentment, the face amount of the payment service obligations. In addition, certain other assets of the Payment Services subsidiaries are available if necessary to meet such obligations. Such assets are not available to satisfy working capital or other financing requirements of Viad. Securities are included in the Consolidated Balance Sheets under the caption, “Investments restricted for payment service obligations.” Certain additional assets of the Payment Services subsidiaries relating to payment service obligations, including cash on hand, funds in transit from agents, and securities expected to be sold or maturing within one year, are included under the caption, “Funds, agents’ receivables and current maturities of investments restricted for payment service obligations.”

As described in notes to Viad’s annual financial statements, a Payment Services subsidiary business involves the payment of commissions to selling financial institutions of its official check program. Commissions are paid to financial institution customers based upon their average outstanding balances generated by the sale of official check products. In addition, it has also entered into agreements to sell receivables primarily from money order agents. The commissions and net proceeds from the sale of agents’ receivables are computed based on short-term variable interest rates that are hedged through swap agreements (see Note E) that effectively convert the variable rate payments to fixed rates.

Under normal circumstances, the swap agreements will not be terminated prior to maturity, nor is there any requirement to sell long-term debt securities prior to maturity, as the funds flow from ongoing sales of money orders and other payment instruments and funds from maturing long-term and short-term investments are expected to be adequate to settle payment service items as they are presented.

Table of Contents

The following is a summary of asset and liability carrying amounts related to the payment service obligations and the fair value of related swap agreements:

(000 omitted)	September 30, 2002	December 31, 2001
Funds, agents' receivables and current maturities of investments restricted for payment service obligations	\$ 1,893,534	\$ 1,476,475
Investments restricted for payment service obligations (1)	6,124,729	5,422,899
Payment service obligations	(7,629,880)	(6,649,722)
Fair value of derivative financial instruments (2)	(247,583)	(87,187)
Total	\$ 140,800	\$ 162,465

- (1) Securities classified as "available-for-sale" are carried at market value and securities classified as "held-to-maturity" are carried at amortized cost (see Note C).
- (2) The fair value represents the estimated amounts that Viad would pay to counterparties to terminate the swap agreements at September 30, 2002 and December 31, 2001.

NOTE C — Investments Restricted for Payment Service Obligations

A summary of securities classified as available-for-sale at September 30, 2002 is presented below:

(000 omitted)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	\$ 37,264	\$ 678	\$ 15	\$ 37,927
Obligations of states and political subdivisions	615,738	51,880	25	667,593
Corporate debt securities	268,616	14,065	544	282,137
Mortgage-backed and other asset-backed securities	3,291,031	115,542	15,014	3,391,559
Preferred stock	97,101	651	5,541	92,211
Securities classified as available-for-sale	<u>\$4,309,750</u>	<u>\$182,816</u>	<u>\$21,139</u>	<u>\$4,471,427</u>

A summary of securities classified as held-to-maturity at September 30, 2002 is presented below:

(000 omitted)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	\$ 83,863	\$ 793	\$ —	\$ 84,656
Obligations of states and political subdivisions	458,511	36,515	36	494,990
Corporate debt securities	18,057	1,624	—	19,681
Mortgage-backed and other asset-backed securities	1,092,627	30,267	23,555	1,099,339
Debt securities issued by foreign governments	5,426	—	79	5,347
Securities classified as held-to-maturity	<u>\$1,658,484</u>	<u>\$69,199</u>	<u>\$23,670</u>	<u>\$1,704,013</u>

Table of Contents

A summary of securities classified as available-for-sale at December 31, 2001 is presented below:

(000 omitted)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	\$ 19,672	\$ 107	\$ 68	\$ 19,711
Obligations of states and political subdivisions	734,865	11,320	3,372	742,813
Corporate debt securities	186,192	4,339	941	189,590
Mortgage-backed and other asset-backed securities	2,881,620	57,750	17,853	2,921,517
Debt securities issued by foreign governments	4,991	200	—	5,191
Preferred stock	120,631	761	3,156	118,236
Securities classified as available-for-sale	<u>\$3,947,971</u>	<u>\$74,477</u>	<u>\$25,390</u>	<u>\$3,997,058</u>

A summary of securities classified as held-to-maturity at December 31, 2001 is presented below:

(000 omitted)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	\$ 91,768	\$ 283	\$ 353	\$ 91,698
Obligations of states and political subdivisions	464,695	18,687	293	483,089
Corporate debt securities	18,112	1,070	—	19,182
Mortgage-backed and other asset-backed securities	869,610	21,803	12,685	878,728
Debt securities issued by foreign governments	5,456	25	—	5,481
Securities classified as held-to-maturity	<u>\$1,449,641</u>	<u>\$41,868</u>	<u>\$13,331</u>	<u>\$1,478,178</u>

Current maturities of investments restricted for payment service obligations at September 30, 2002 and December 31, 2001 were \$5.2 million and \$23.8 million, respectively.

NOTE D — Goodwill and Other Intangible Assets

In January 2002, Viad adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 specifies that goodwill and certain intangible assets with indefinite lives no longer be amortized but instead be subject to periodic impairment testing. At March 31, 2002, Viad completed the transitional impairment test for certain intangible assets with indefinite lives and found that no impairment exists. Viad completed the transitional impairment test for goodwill during the second quarter of 2002. The test was performed as of January 1, 2002 and concluded that a transitional impairment loss of \$40.0 million (\$37.7 million after-tax) should be recognized related to goodwill at the Exhibitgroup/Giltspur reporting unit of the Convention and Event Services segment. The fair value of that reporting unit was estimated using the expected present value of future cash flows. The impairment resulted from a change in the criteria for measurement of impairment from an undiscounted to a discounted cash flow method. This impairment was retroactively restated to the first

Table of Contents

quarter of 2002 in accordance with SFAS No. 142 and is included in the Consolidated Statements of Income under the caption “Change in accounting principle.”

Intangible assets with finite lives will continue to be amortized over their respective useful lives and will be tested for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” This statement, adopted in January 2002, supersedes SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,” and the accounting and reporting provisions of APB Opinion No. 30, “Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.” SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions.

A summary of intangible assets at September 30, 2002 is presented below:

(000 omitted)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:			
Customer lists	\$27,523	\$15,903	\$11,620
Patents	13,200	9,603	3,597
Other	6,379	6,235	144
	<u>47,102</u>	<u>31,741</u>	<u>15,361</u>
Unamortized intangible assets:			
Trademarks	13,182	—	13,182
Pension intangible assets	5,799	—	5,799
	<u>18,981</u>	<u>—</u>	<u>18,981</u>
Total intangible assets	<u>\$66,083</u>	<u>\$31,741</u>	<u>\$34,342</u>

Intangible asset amortization expense for the quarter and nine months ended September 30, 2002 was \$489,000 and \$1,468,000, respectively. Estimated amortization expense for the five succeeding fiscal years is as follows:

(000 omitted)	
2002	\$ 1,959
2003	1,938
2004	1,882
2005	1,861
2006	1,570

The changes in the carrying amount of goodwill for the nine months ended September 30, 2002 are as follows:

(000 omitted)	Payment Services	Convention and Event Services	Other	Total
Balance at beginning of year	\$297,705	\$262,243	\$27,417	\$587,365
Transitional impairment loss	—	(40,000)	—	(40,000)
Foreign currency translation adjustments	—	771	32	803
Balance at end of period	<u>\$297,705</u>	<u>\$223,014</u>	<u>\$27,449</u>	<u>\$548,168</u>

Table of Contents

Amortization expense of goodwill and intangible assets with indefinite lives for the quarter ended September 30, 2001 was \$4,131,000 (\$3,515,000 after-tax) and \$99,000 (\$62,000 after-tax), respectively. For the nine months ended September 30, 2001, amortization expense of goodwill and intangible assets with indefinite lives amounted to \$12,369,000 (\$10,528,000 after-tax) and \$295,000 (\$184,000 after-tax), respectively. Net income as reported and as adjusted for the adoption of SFAS No. 142 is presented below:

(000 omitted, except per share data)	Quarter ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Reported net income (loss)	\$35,617	\$(15,764)	\$62,488	\$25,947
Amortization of goodwill and intangible assets with indefinite lives, net of tax	—	3,577	—	10,712
Adjusted net income (loss)	\$35,617	\$(12,187)	\$62,488	\$36,659
Diluted earnings per share:				
Reported net income (loss)	\$ 0.41	\$ (0.19)	\$ 0.71	\$ 0.29
Amortization of goodwill and intangible assets with indefinite lives, net of tax	—	0.04	—	0.12
Adjusted net income (loss)	\$ 0.41	\$ (0.15)	\$ 0.71	\$ 0.41
Basic earnings per share:				
Reported net income (loss)	\$ 0.41	\$ (0.19)	\$ 0.71	\$ 0.29
Amortization of goodwill and intangible assets with indefinite lives, net of tax	—	0.04	—	0.13
Adjusted net income (loss)	\$ 0.41	\$ (0.15)	\$ 0.71	\$ 0.42

NOTE E — Derivative Financial Instruments

Viad uses derivative financial instruments as part of its risk management strategy to manage exposure to fluctuations in interest and foreign currency rates. Derivatives are not used for speculative purposes.

A portion of Viad's Payment Services business involves the payment of variable-rate commissions to selling financial institutions of its official check program. In addition, a Viad Payment Services subsidiary has agreements to sell, on a periodic basis, undivided percentage ownership interests in certain receivables primarily from money order agents in an amount not to exceed \$450 million. The agreement expires in June 2003. The receivables, sold at a discount based on short-term variable interest rates, are sold in order to accelerate Payment Services' cash flow for investment in permissible securities. Variable-to-fixed derivative financial instruments (swap agreements) have been entered into to mitigate the effects of fluctuations primarily on commission expense and to a lesser extent on the net proceeds from agents' receivable sales.

Viad records all derivatives as either assets or liabilities, measured at fair value, with the change in fair value of the derivative recognized in earnings or in other comprehensive income, depending on the use of the derivative and whether it qualifies for hedge accounting. Viad's derivative agreements have been designated, and qualify, as cash flow hedges. The length of time over which future cash flows are hedged ranges up to six years.

The effective portion of the change in fair values of derivatives qualifying as cash flow hedges is recorded in other comprehensive income. Amounts receivable or payable under the derivative agreements are reclassified from other comprehensive income to net income as an adjustment to the expense of the related transaction. These amounts are included in the Consolidated Statements of Income under "Costs of sales and services."

Table of Contents

The amount recognized in earnings due to the ineffectiveness of the cash flow hedges was not material. No cash flow hedges were discontinued during the quarter or nine months ended September 30, 2002 or 2001. Viad is also exposed to foreign currency exchange risk. Forward derivative contracts are used to hedge assets and liabilities denominated in foreign currencies. While these contracts economically hedge Viad's foreign currency risk, they are not designated as hedges for accounting purposes under SFAS No. 133. Accordingly, these contracts are recorded on the Consolidated Balance Sheets at fair value, with the change in fair value reflected in earnings. The effect of changes in foreign exchange rates on the foreign-denominated receivables and payables, net of the effect of the related forward contracts, is not significant.

NOTE F – Debt

In August 2002, Viad's \$200 million 364-day short-term revolving credit facility was amended, the total amount of the lenders' commitments was reduced to \$168 million under similar terms and the commitment termination date of each eligible lender was extended to August 2003. The short-term revolving credit facility, as amended, allows for Viad to increase the aggregate amount of the lender commitments up to \$200 million.

At September 30, 2002 and December 31, 2001, Viad classified as long-term debt \$151 million and \$166 million, respectively, of short-term borrowings. These borrowings are supported by unused commitments under \$393 million and \$425 million, respectively, of long-term credit facilities.

NOTE G – Income Taxes

A reconciliation of the provision for income taxes and the amount that would be computed using statutory federal income tax rates on income before income taxes and change in accounting principle for the nine months ended September 30, is as follows:

(000 omitted)	2002		2001	
Computed income taxes at statutory federal income tax rate	\$ 48,904	35.0%	\$ 5,539	35.0%
Nondeductible goodwill amortization	—	0.0%	2,614	16.5%
State income taxes	5,206	3.7%	402	2.5%
Other, net	2,895	2.1%	1,596	10.1%
	<u>57,005</u>	<u>40.8%</u>	<u>10,151</u>	<u>64.1%</u>
Tax-exempt income	(16,505)	(11.8%)	(20,548)	(129.7%)
Adjustment to estimated annual effective rate (1)	(1,000)	(0.7%)	275	1.7%
Provision for income taxes (2)	<u>\$ 39,500</u>	<u>28.3%</u>	<u>\$(10,122)</u>	<u>(63.9%)</u>

- (1) Accounting principles generally accepted in the United States of America for interim financial reporting (APB Opinion No. 28) require that income taxes be provided based on the estimated effective tax rate expected to be applicable for the entire fiscal year.
- (2) Excluding the effect of the restructuring charges and other items, the effective tax rate for the first nine months of 2001 was 25.0 percent.

NOTE H – Segment Information

Viad measures profit and performance of its operations on the basis of operating income before restructuring charges and other items. An adjustment is made to the Payment Services segment to present revenues and operating income on a fully taxable equivalent basis as though amounts were invested in taxable investments. Intersegment sales and transfers are not significant. Corporate activities include expenses not allocated to operations. Disclosures regarding Viad's reportable segments along with reconciliations to consolidated totals are presented below.

Table of Contents

(000 omitted)	Quarter ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Revenues:				
Payment Services	\$217,165	\$192,033	\$ 620,434	\$ 558,351
Convention and Event Services	171,616	171,090	625,873	715,046
Reportable segments	388,781	363,123	1,246,307	1,273,397
Travel and Recreation Services	37,185	37,913	53,484	57,448
	425,966	401,036	1,299,791	1,330,845
Less taxable equivalent adjustment	(7,989)	(10,950)	(28,282)	(36,629)
	\$417,977	\$390,086	\$1,271,509	\$1,294,216
Operating income before restructuring charges and other items:				
Payment Services	\$ 47,077	\$ 44,391	\$ 138,408	\$ 122,868
Convention and Event Services (1)	2,246	(7,110)	38,900	41,118
Reportable segments	49,323	37,281	177,308	163,986
Travel and Recreation Services	14,612	14,574	16,016	16,435
	63,935	51,855	193,324	180,421
Corporate activities and minority interests	(6,390)	(2,353)	(18,241)	(11,033)
Less taxable equivalent adjustment	(7,989)	(10,950)	(28,282)	(36,629)
	49,556	38,552	146,801	132,759
Other investment income	4,937	1,326	7,580	4,096
Interest expense	(5,060)	(6,323)	(15,067)	(20,656)
Restructuring charges and other items	413	(71,100)	413	(100,374)
Income (loss) before income taxes and change in accounting principle	\$ 49,846	\$ (37,545)	\$ 139,727	\$ 15,825

(1) 2001 amounts are presented before \$3.7 million of inventory write-downs included in restructuring charges and other items.

NOTE I – Restructuring Charges and Other Items

In the 2001 third quarter, Viad recorded restructuring charges totaling \$66.1 million (\$39.9 million after-tax) associated with the closure and consolidation of certain facilities, severance and other employee benefits. In the 2002 third quarter, \$0.4 million (\$0.2 million after-tax) of the reserve was reversed as certain actual costs incurred were less than original estimates.

Payments under long-term lease obligations for closed facilities will continue to be made over the remaining terms of the leases. Approximately 98 percent of the facility closures and consolidation had been completed and 100 percent of the positions had been eliminated as of September 30, 2002. Severance and benefits payments will continue to be made over the varying terms of the individual separation agreements.

At September 30, 2002, there was \$21.9 million of remaining accrued liabilities, of which \$6.7 million and \$15.2 million were included in the Consolidated Balance Sheets under the captions “Other current liabilities” and “Other deferred items and insurance liabilities,” respectively.

Table of Contents

A summary of the change in the accrued liabilities is as follows:

(000 omitted)	Severance and Benefits	Facility Closure and Lease Termination	Total
Balance at December 31, 2001	\$ 7,007	\$27,917	\$ 34,924
Cash payments	(5,260)	(7,324)	(12,584)
Adjustment to severance liability	(413)	—	(413)
Balance at September 30, 2002	\$ 1,334	\$20,593	\$ 21,927

During the 2001 third quarter, Viad's Payment Services subsidiary recorded a noncash charge totaling \$5.0 million (\$3.0 million after-tax) resulting from the bankruptcy of a large money order agent in September 2001.

In August 2000, Key3Media Group, Inc. ("Key3Media"), a company spun off by Ziff-Davis Inc., terminated a long-term agreement with GES Exposition Services, Inc. ("GES") to produce tradeshows. The companies entered into litigation regarding the contract termination, and after reaching an agreement to end the litigation, Viad recorded a second quarter 2001 noncash provision totaling \$29.3 million (\$18.3 million after-tax). This provision represented primarily the write-off of net receivables and prepayments made to Key3Media.

NOTE J – Recent Accounting Pronouncements

In November 2001, the Emerging Issues Task Force reached a consensus on Issue 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred" ("EITF 01-14"), which became effective for Viad on January 1, 2002. Under EITF 01-14, reimbursements received for out-of-pocket expenses incurred should be characterized as revenue in the income statement. Upon adoption of EITF 01-14, comparative financial statements for prior periods should be reclassified to comply with the current presentation. The adoption of EITF 01-14 does not have any impact on Viad's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers" and SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking Fund Requirements." This statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 is generally effective for the Company for fiscal year 2003. Viad does not expect the adoption of SFAS No. 145 to have a significant effect on its results of operations or financial position.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company has not yet determined if the adoption of this statement will have any material impact on its results of operations or financial position should the company have future exit or disposal activity.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS:

Viad Corp ("Viad") focuses on two principal service businesses: Payment Services and Convention and Event Services.

There were no material changes in the nature of Viad's business, nor were there any changes in the general characteristics of its operations as described and discussed in the "Results of Operations" section of Management's Discussion and Analysis of Results of Operations and Financial Condition presented in the Viad Corp Annual Report on Form 10-K for the year ended December 31, 2001.

Certain information included in the following discussion is presented using methods management utilizes to measure profit and performance of its operations. The information is supplemental to results presented under accounting principles generally accepted in the United States of America (GAAP) and may not be comparable to similarly titled measures used by other companies. This supplemental information includes the following:

- Payment Services invests in a mix of tax-exempt and taxable investments. The tax-exempt investments have lower pre-tax yields but produce higher income on an after-tax basis than comparable taxable investments. An adjustment is made to the Payment Services segment to present revenues and operating income resulting from amounts invested in tax-exempt securities on a fully taxable equivalent basis. See Note H of Notes to Consolidated Financial Statements for a reconciliation to GAAP.
- EBITDA is a measure of Viad's ability to service debt, fund capital expenditures and finance growth, and should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with accounting principles generally accepted in the United States of America. EBITDA is defined by Viad as income before interest expense, income taxes, depreciation and amortization, restructuring charges and other items, changes in accounting principles and includes the fully taxable equivalent adjustment.

Effective January 1, 2002, Viad adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill and certain other intangible assets no longer be amortized, but instead tested for impairment. The following discussion compares 2002 results with 2001 results as originally reported and also on an as adjusted for SFAS No. 142 basis.

All per share figures discussed are stated on the diluted basis.

COMPARISON OF THIRD QUARTER OF 2002 TO THE THIRD QUARTER OF 2001:

In the third quarter of 2002, revenues increased 7.1 percent to \$418.0 million from \$390.1 million in the 2001 third quarter primarily due to growth in the Payment Services segment. Revenues on the fully taxable equivalent basis were \$426.0 million in the 2002 third quarter, up 6.2 percent from \$401.0 million in the 2001 third quarter. Segment operating income on the same basis (before corporate activities and minority interests) was \$63.9 million for the 2002 third quarter compared with \$51.9 million for the 2001 third quarter (up 23.3 percent), and operating margins were 15.0 percent in the third quarter of 2002 compared to 12.9 percent in the third quarter of 2001. Segment operating income and the operating margin in the third quarter of 2001 when adjusted for SFAS No. 142 would have been \$56.1 million (up in 2002 by 14.0 percent) and 14.0 percent, respectively. Operating income and margin growth was primarily related to positive Convention and Event Services segment operating

Table of Contents

income as compared to an operating loss in the 2001 quarter. See Note H of Notes to Consolidated Financial Statements for segment information.

Net income for the third quarter of 2002 was \$35.6 million, or \$0.41 per share, compared to a net loss of \$15.8 million, or \$0.19 per share, for the third quarter of 2001. Excluding restructuring charges and other items (described in Note I of Notes to Consolidated Financial Statements), third quarter 2001 income was \$27.2 million, or \$0.31 per share (with a 2002 increase of 32.3 percent on a per share basis). When adjusted for SFAS No. 142, net loss for the third quarter of 2001 would have been \$12.2 million (\$0.15 per share) or net income of \$30.7 million (\$0.35 per share) excluding restructuring charges and other items. EBITDA for the 2002 third quarter was \$75.4 million, up from \$68.5 million in the 2001 period.

(000 omitted, except per share data)	Quarter ended September 30,	
	2002	2001
Income before restructuring charges and other items	\$35,368	\$ 27,172
Restructuring charges and other items, net of tax	249	(42,936)
Net income (loss)	\$35,617	\$(15,764)
Diluted net income (loss) per common share:		
Income before restructuring charges and other items	\$ 0.41	\$ 0.31
Restructuring charges and other items	—	(0.50)
Diluted net income (loss) per common share	\$ 0.41	\$ (0.19)

PAYMENT SERVICES . On the fully taxable equivalent basis, third quarter 2002 revenues of the Payment Services segment were \$217.2 million, up 13.1 percent from 2001 third quarter revenues of \$192.0 million. On the same basis, operating income increased to \$47.1 million, or 6.1 percent, from 2001 third quarter operating income of \$44.4 million. Operating margins on the fully taxable equivalent basis decreased to 21.7 percent in the third quarter of 2002 compared with 23.1 percent in the 2001 third quarter primarily due to the decrease in the net investment margin. When adjusting the third quarter of 2001 for the impact of SFAS No. 142, operating income would have been \$46.5 million (with a 2002 increase of 1.3 percent) and the operating margin would have been 24.2 percent. Revenue growth was driven by continued strong growth in money transfer transactions and average investable balances. Third quarter 2002 revenues include \$8.0 million of gains as compared to \$3.0 million in the third quarter of 2001, with the increase primarily associated with the sale of municipal securities. Viad's reduced operating income over the last several quarters prompted a change in tax strategy with regard to its alternative minimum tax position and as a result Payment Services sold a portion of its tax-exempt municipal securities. As part of Viad's tax planning, it may continue to sell municipal securities over the next year.

Float income (investment income from the investment portfolio) represented approximately 45% of total Payment Services revenue in the third quarter 2002. Float income is affected by the level of investment balances (float portfolio) and the yield on investments. Overall, float income, net of commission expense, declined \$2.7 million in the 2002 third quarter as compared to 2001. The following table is an analysis of the float income associated with the Payment Services segment's investment portfolio:

Table of Contents

Analysis of Average Balances, Float and Average Yields and Interest Rate (000 omitted, taxable equivalent basis)

	Quarter ended September 30,					
	2002			2001		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Investments restricted for payment service obligations	\$6,207,540	\$97,126	6.21%	\$5,111,664	\$90,131	7.00%
Payment service obligations ⁽¹⁾	\$4,778,993	62,541	5.19%	\$3,609,678	52,844	5.81%
Net float income and margin		\$34,585	2.21%		\$37,287	2.89%

(1) Commissions are paid to financial institution customers based upon average outstanding balances generated by the sale of official check products only. The average balance in the table reflects only the payment service obligations for which commissions are paid. Commission expense is classified as "Costs of sales and services" in the Consolidated Statements of Income.

Float income (excluding gains) was \$97.1 million in the third quarter 2002 compared to \$90.1 million in the third quarter 2001, an increase of 7.8%. The growth primarily is due to higher average float portfolio balances, which increased by \$1.1 billion, or 21.4%. The float income increase attributable to the balance growth was \$19.3 million and was partially offset by a decrease of approximately \$12.3 million due to an interest rate decline, reflecting an average investment yield of 6.21%, or a 79 basis point decline from 7.00% in 2001. During the same period, average 5-year U.S. Treasury Notes declined over 100 basis points and short-term interest rates declined nearly 200 basis points. This dramatic decline in interest rates resulted in unprecedented mortgage refinancing activity in the 2002 third quarter. Refinancing activities caused an increase in the sale of official checks and an increase in float balances. However, a substantial portion of these balances were invested at short-term interest rates equal to or less than the interest rates paid out in commissions to financial institution customers. The refinancing activity also drove a significant increase in the prepayments of mortgage backed debt securities, resulting in funds which were reinvested at lower interest rates. Also contributing to the 79 basis point decline in average investment yield in the third quarter 2002 was a lower percentage of the portfolio invested in the higher effective yield municipal securities. See Note C of Notes to Consolidated Financial Statements for a breakout of assets restricted for payment service obligations. If the unprecedented mortgage refinancing activity continues, results could be similarly affected.

Commission expense was \$62.5 million in third quarter 2002, an increase of \$9.7 million, or 18%, primarily due to higher average balances of \$1.2 billion. The commission expense increase attributable to the higher average balances was \$17.1 million and was partially offset by a decrease of approximately \$7.4 million due to an interest rate decline, reflecting an average commission rate of 5.19% in the 2002 third quarter, or a 62 basis point decline from 5.81% in 2001.

Net float income (float income less commission expense) was \$34.6 million in the third quarter 2002, down \$2.7 million or 7.2%, primarily due to the decline in net float income of approximately \$10.7 million related to a decline in interest rates (partially offset by an increase in income of \$8.0 million related to increased balances), reflecting a net float margin of 2.21%, or a 68 basis point decline from 2.89% in 2001. The 68 basis point margin decline was a result of a lower interest rate environment which affected the margin as short-term and floating balances earned lower yields and proceeds from prepayments and sales were reinvested at lower yields. Also, although the commission payments to financial institution customers declined as short-term interest rates declined, the fixed rate derivatives used to mitigate the effects of fluctuations on commission expense have contractual maturities and did not reprice at the same rate as assets prepaid.

Table of Contents

The following table summarizes the impact of changes in average investable balances and interest rates on the float income and commission expense associated with the investment portfolio:

Changes in Float Income and Commission Expense — Due to Changes in Average Investable Balances and Interest Rates
(000 omitted, taxable equivalent basis)

	Quarter ended September 30,		
	2002 vs 2001		
	Balance	Yield/ Rate	Total
Float Income	\$19,323	\$(12,328)	\$ 6,995
Commission expense	\$17,118	\$ (7,421)	\$ 9,697
Net float income	\$ 7,994	\$(10,696)	\$(2,702)

The totals for the balance and rate columns are not the sum of the individual lines as income and expense changes are calculated independently.

One of the Payment Services business objectives in managing the float portfolio is to mitigate the risk to earnings created by changing interest rates. In order to mitigate that risk, interest rate derivatives are entered into which effectively limit exposure to the floating rate commission payments to financial institution customers. The fair value of these derivatives can fluctuate with interest rate changes, reflected as increases or decreases to a component of stockholders' equity. Changes in the value of the available-for-sale investment portfolio also are reflected as increases and decreases to a component of stockholders' equity. The change in the fair value of the derivative liability for the third quarter 2002 was a net decrease of \$75 million in stockholders' equity, while the net change in the fair value of the available-for-sale investment portfolio was a net increase of \$35 million in stockholders' equity. Changes in the value of the available-for-sale investment portfolio will generally move in the opposite direction of the derivative values although they will rarely offset. This is because the main objective in entering into the derivatives is to first mitigate the risk on earnings due to the change in interest rates and secondarily to mitigate the risk to equity.

MoneyGram continued to show improvement with transaction volume growing 31 percent, led by strong International and Express Payment transaction volume growth. MoneyGram's agent base expanded by 30 percent over the 2001 third quarter.

The money order business continues to contribute significantly to the operating margin, however, money order volume and related average investable balances were down slightly compared to the 2001 third quarter as some agents were eliminated and fewer agents were approved in order to improve the credit profile of the money order business.

CONVENTION AND EVENT SERVICES. Convention and Event Services revenues increased 0.3 percent to \$171.6 million in the third quarter of 2002 from \$171.1 million in the third quarter of 2001. Operating income for the segment increased \$9.3 million to \$2.2 million from the 2001 third quarter operating loss of \$7.1 million. Operating margins were 1.3 percent in the third quarter of 2002 compared to a negative margin in 2001 of 4.2%. Third quarter 2001 operating loss would have been \$5.2 million when adjusted for SFAS No. 142. Despite flat revenue, the growth in operating income for the segment resulted from ongoing improvements in operating efficiencies and cost cutting initiatives derived from the restructuring program begun in the 2001 third quarter. Improvement in the quarter was also driven in part by the addition of the International Manufacturing Technology Show, which was new to the quarter, and slightly positive show rotation. The 2001 restructuring program is virtually complete with the remaining activity primarily related to subleasing property and making remaining

Table of Contents

severance payments. The Convention and Event Services segment has realized the \$30 million to \$35 million (on an annual pre-tax basis) cost savings. Given the continued weakness in most business sectors, particularly telecommunications and technology, the segment continues to focus on reducing its cost structure and improving operating efficiencies, in order to position the segment to take advantage of any upturn in the economy.

TRAVEL AND RECREATION SERVICES. Revenues of the travel and recreation businesses were \$37.2 million for the third quarter of 2002, down \$0.7 million from \$37.9 million in the 2001 third quarter. Operating income was \$14.6 million in the 2002 third quarter, flat with the 2001 third quarter. Operating margins were 39.3 percent in the third quarter of 2002 compared with 38.4 percent in the prior year third quarter. When adjusted for SFAS No. 142, third quarter 2001 operating income and the operating margin would have been \$14.8 million (down in 2002 by 1.2 percent) and 39.0 percent, respectively. These results reflect a decline in tourism to Canada related to the post September 11, 2001 travel concerns and the current economic conditions offset by increased travel within the United States as people stay closer to home.

CORPORATE ACTIVITIES AND MINORITY INTERESTS. The increase in corporate activities expense in the third quarter of 2002 of \$2.3 million as compared to the third quarter of 2001 relates to higher insurance premiums and additional employee benefit and other compensation accruals. The increase in minority interests in the third quarter of 2002 of \$1.8 million as compared to the third quarter of 2001 relates primarily to strong revenue and transaction volume growth in the Payment Services segment's 51 percent interest in an international money transfer services joint venture.

NET INTEREST EXPENSE. The decrease in net interest expense from \$5.0 million in the 2001 third quarter to \$0.1 million in the third quarter of 2002 was primarily related to an interest income accrual of \$3.5 million resulting from a federal income tax refund received in the fourth quarter of 2002 for the 1994 through 1996 tax years. Lower average debt and short-term interest rates also contributed to the decrease in interest expense of \$1.3 million during the 2002 quarter as compared to the 2001 quarter.

INCOME TAXES. Excluding restructuring charges and other items, the effective tax rate in the 2002 third quarter was 28.5 percent compared to 19.0 percent (18.6 percent as adjusted for SFAS No. 142) for the third quarter of 2001. The relatively low effective tax rate compared to the statutory federal rate is primarily attributable to tax-exempt income from Viad's Payment Services businesses. The decrease in rate quarter-over-quarter is due to level amounts of tax-exempt income in proportion to higher pre-tax income in 2002 as compared to lower pre-tax income in 2001.

COMPARISON OF FIRST NINE MONTHS OF 2002 TO THE FIRST NINE MONTHS OF 2001 :

Revenues for the first nine months of 2002 decreased 1.8 percent to \$1.27 billion from \$1.29 billion in 2001 primarily related to the Convention and Event Services segment. Revenues on the fully taxable equivalent basis decreased 2.3 percent to \$1.30 billion from \$1.33 billion. Segment operating income on the same basis (before corporate activities and minority interests) was \$193.3 million for the first nine months of 2002, up 7.2 percent due to an increase in Payment Services segment results, compared with \$180.4 million for the prior year, and operating margins were 14.9 percent in 2002 compared to 13.6 percent in 2001. Segment operating income and the operating margin for the nine months ended September 30, 2001 when adjusted for SFAS No. 142 would have been \$193.1 million (with a 2002 increase of 0.1 percent) and 14.5 percent, respectively. See Note H of Notes to Consolidated Financial Statements for segment information.

Net income for the first nine months of 2002 was \$62.5 million, or \$0.71 per share, compared to \$25.9 million, or \$0.29 per share, for the first nine months of 2001. Before the change in accounting principle (described below) and restructuring charges and other items previously discussed, income for the first nine months of 2002 and 2001 was \$100.0 million, or \$1.14 per share and \$87.2 million, or \$1.00 per

Table of Contents

share, respectively, with a 14.0 percent increase on a per share basis. Income for the first nine months of 2001 when adjusted for SFAS No. 142 would have been \$97.9 million (\$1.12 per share) excluding the restructuring charges and other items. EBITDA for the first nine months of 2002 was \$221.4 million, down from \$226.1 million in the 2001 period.

(000 omitted, except per share data)	Nine months ended September 30,	
	2002	2001
Income before change in accounting principle and restructuring charges and other items	\$ 99,978	\$ 87,150
Change in accounting principle, net of tax	(37,739)	—
Restructuring charges and other items, net of tax	249	(61,203)
Net income	\$ 62,488	\$ 25,947
Diluted net income per common share:		
Income before change in accounting principle and restructuring charges and other items	\$ 1.14	\$ 1.00
Change in accounting principle	(0.43)	—
Restructuring charges and other items	—	(0.71)
Diluted net income per common share	\$ 0.71	\$ 0.29

In June 2002, in accordance with the adoption of SFAS No. 142, Viad completed a transitional impairment test for goodwill. The test was performed as of January 1, 2002 and concluded that a transitional impairment loss of \$40.0 million (\$37.7 million after-tax) should be recognized related to goodwill at the Exhibitgroup/Giltspur reporting unit of the Convention and Event Services segment. The impairment was retroactively restated to the first quarter of 2002 as a cumulative effect of a change in accounting principle in accordance with SFAS No. 142.

PAYMENT SERVICES. On the fully taxable equivalent basis, revenues of the Payment Services segment for the first nine months of 2002 were \$620.4 million, up 11.1 percent, from 2001 nine month revenues of \$558.4 million. On the same basis, operating income increased to \$138.4 million, up 12.6 percent from \$122.9 million in the 2001 period. Operating margins on the fully taxable equivalent basis were 22.3 percent for the first nine months of 2002, compared with 22.0 percent in the first nine months of 2001. When adjusting the nine month period ended September 30, 2001 for the impact of SFAS No. 142, operating income and the operating margin would have been \$129.0 million (with a 2002 increase of 7.3 percent) and 23.1 percent, respectively. Average investable balances were 24 percent higher in 2002 compared to the same period in 2001, primarily driven by the strong growth in the official check business reflecting the ramp-up of key new accounts and increased mortgage refinancing activity. Transaction volume for MoneyGram grew 32 percent over the prior year, with strong growth in Express Payment and in the international corridors.

Float income represented approximately 47% of total Payment Services revenue for the first nine months of 2002. Overall, float income, net of commission expense, increased \$5.7 million in the first nine months of 2002 over the 2001 period. The following table is an analysis of the float income (excluding gains) and commissions expense associated with the Payment Services segment's investment portfolio:

Table of Contents

Analysis of Average Balances, Float and Average Yields and Interest Rates (000 omitted, taxable equivalent basis)

	Nine months ended September 30,					
	2002			2001		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Investments restricted for payment service obligations	\$5,909,740	\$289,085	6.54%	\$4,769,913	\$260,342	7.30%
Payment service obligations ⁽¹⁾	\$4,456,885	176,236	5.29%	\$3,234,773	153,193	6.33%
Net float income and margin		\$112,849	2.55%		\$107,149	3.00%

(1) Commissions are paid to financial institution customers based upon average outstanding balances generated by the sale of official check products only. The average balance in the table reflects only the payment service obligations for which commissions are paid. Commission expense is classified as "Costs of sales and services" in the Consolidated Statements of Income.

Float income (excluding gains) was \$289.1 million in the first nine months of 2002 compared to \$260.3 million in the same period of 2001, an increase of 11%. The growth primarily is due to higher average float portfolio balances, which increased by \$1.1 billion, or 24%. The float income increase attributable to the balance growth was \$62.2 million and was partially offset by a decrease of \$33.5 million due to an interest rate decline, reflecting an average investment yield of 6.54%, or a 76 basis point decline from 7.30% in 2001. During the same period, average 5-year U.S. Treasury Notes declined over 60 basis points and short-term interest rates declined over 270 basis points. This dramatic decline in interest rates resulted in mortgage refinancing activity that caused an increase in the sale of official checks and an increase in float balances. However, a portion of these balances were invested for a period of time during the nine months at short-term interest rates equal to or less than the rates paid out in commissions to financial institution customers. The refinancing activity also drove an increase in the prepayments of mortgage backed debt securities, resulting in funds which were reinvested at lower interest rates.

Commission expense was \$176.2 million in the first nine months of 2002, an increase of \$23 million, or 15%, primarily due to higher average balances of \$1.2 billion. The commission expense increase attributable to the higher average balances was \$57.9 million and was partially offset by a decrease of approximately \$34.8 million due to an interest rate decline, reflecting an average commission rate of 5.29% in the first nine months of 2002, or a 104 basis point decline from 6.33% in 2001.

Net float income (float income less commission expense) was \$112.8 million in the first nine months of 2002, up \$5.7 million, or 5.3%, primarily due to the higher average float portfolio balances reflecting the ramp-up of key new accounts and increased mortgage refinancing activity. The net float income increase resulting from balance growth was \$25.6 million and was partially offset by a decrease of \$19.9 million due to a decline in the net float rate reflecting a net float margin of 2.55%, or a 45 basis point decline from 3.00% in 2001. The 45 basis point margin decline was a result of a lower interest rate environment which affected the margin as short-term and floating balances earned lower yields and proceeds from prepayments and sales were reinvested at lower yields. Also, although the commission payments to financial institution customers declined as short-term interest rates declined, the fixed rate derivatives have contractual maturities and did not reprice at the same rate as assets prepaid.

Table of Contents

The following table summarizes the impact of changes in average investable balances and interest rates on the float income and commission expense associated with the investment portfolio:

Changes in Float Income and Commission Expense – Due to Changes in Average Investable Balances and Interest Rates
(000 omitted, taxable equivalent basis)

	Nine months ended September 30, 2002 vs 2001		
	Balance	Yield/ Rate	Total
Float Income	\$62,212	\$(33,469)	\$28,743
Commission expense	\$57,877	\$(34,834)	\$23,043
Net float income	\$25,605	\$(19,905)	\$ 5,700

The totals for the balance and rate columns are not the sum of the individual lines as income and expense changes are calculated independently.

Changes in the value of the available-for-sale investment portfolio also are reflected as increases and decreases to a component of stockholders' equity. The change in the fair value of the derivative liability for the first nine months of 2002 was a net decrease of \$97 million in stockholders' equity, while the net change in the fair value of the available-for-sale investment portfolio was a net increase of \$69 million in stockholders' equity. Changes in the value of the available-for-sale investment portfolio will generally move in the opposite direction of the derivative values although they will rarely offset. This is because the main objective in entering into the derivatives is to first mitigate the risk on earnings due to the change in interest rates and secondarily to mitigate the risk to equity.

CONVENTION AND EVENT SERVICES. Convention and Event Services revenues decreased 12.5 percent to \$625.9 million from \$715.0 million in the 2001 nine month period due primarily to economic weakness and a reduction in corporate spending. Operating income for the segment was \$38.9 million, down 5.4 percent from \$41.1 million in the 2001 period (or \$47.0 million, down 17.2 percent, when 2001 is adjusted for SFAS No. 142). Operating margins were 6.2 percent compared with 5.8 percent in 2001 (or 6.6 percent when 2001 is adjusted for SFAS No. 142). The declining results of this segment were predominately due to a reduction in corporate spending in the exhibit building business. The impact of a weak economy and the substitution of exhibit refurbishments instead of new builds were somewhat offset by the impact of the restructuring plan implemented last year. The full impact will not be seen until revenues improve.

TRAVEL AND RECREATION SERVICES. For the first nine months of 2002, revenues of the travel and recreation businesses were \$53.5 million, down 6.9 percent from \$57.4 million in the first nine months of 2001, while operating income decreased \$0.4 million from \$16.4 million to \$16.0 million for the same period. Operating income for the 2002 period would have been down 6.2 percent from \$17.1 million in the nine month period ended September 30, 2001, when adjusted for SFAS No. 142. The decrease in revenue and operating income relates to a decrease in travel to Canada, slightly offset by an increase in the Glacier Park business.

CORPORATE ACTIVITIES AND MINORITY INTERESTS. Corporate activities expense in the first nine months of 2002 increased \$3.9 million as compared to the first nine months of 2001. This increase relates to \$2.3 million in 2002 in legal, investment banking and other costs incurred in connection with a contemplated initial public offering and spin-off of Travelers Express/MoneyGram and higher insurance premiums and employee benefit accruals in 2002. The increase in minority interests for the

Table of Contents

first nine months of 2002 of \$3.3 million as compared to the same period in 2001 relates to strong revenue and transaction volume growth in the Payment Services segment's 51 percent interest in an international money transfer services joint venture.

NET INTEREST EXPENSE. Net interest expense for the first nine months of 2002 was \$7.5 million compared to \$16.6 million for the first nine months of 2001. A majority of this decrease was driven by a reduction in interest expense of \$5.6 million to \$15.1 million for the first nine months of 2002 from \$20.7 million for the first nine months of 2001. The lower interest expense was a result of lower average debt balances as well as steadily decreasing interest rates. Also contributing to the decrease in net interest expense was the increase in interest income of \$3.5 million to \$7.6 million for the first nine months of 2002 as compared to the 2001 total of \$4.1 million. This increase was due to a \$3.5 million interest income accrual related to a federal income tax refund received in the fourth quarter of 2002.

INCOME TAXES. Excluding the restructuring charges and other items and the 2002 effect of the change in accounting principle, the effective tax rate for the first nine months of 2002 was 28.2 percent as compared to 25.0 percent for the first nine months of 2001 (24.1 percent as adjusted for SFAS No. 142). The relatively low effective tax rate compared to the statutory federal rate is primarily attributable to tax-exempt income from Viad's Payment Services businesses. APB Opinion No. 28 requires that income taxes be provided based on the estimated effective tax rate expected to be applicable for the entire fiscal year. The estimated annual tax rate of 28.2 percent for 2002 is expected to be higher than the annual effective tax rate of 23.6 percent in 2001, or 22.8 percent when adjusted for SFAS No. 142, (excluding the effect of the restructuring charges and other items) due to lower tax-exempt income in proportion to total pre-tax income, resulting from a shift in the mix of investments in the Payment Services segment from nontaxable to taxable investments.

LIQUIDITY AND CAPITAL RESOURCES:

Viad's total debt at September 30, 2002 was \$381.2 million compared with \$396.8 million at December 31, 2001. The debt-to-capital ratio was 0.34 to 1 at September 30, 2002, compared with 0.35 to 1 at December 31, 2001. Capital is defined as total debt plus minority interests, preferred stock, common stock and other equity.

Under a Shelf Registration filed with the Securities and Exchange Commission, Viad can issue up to an aggregate \$500 million of debt and equity securities. In the second quarter of 2002, Viad filed an amended Shelf Registration with the Securities and Exchange Commission to update disclosures in the original 1994 registration statement and to maintain Viad's financial flexibility. No securities have been issued under the program.

On August 30, 2002, Viad's \$200 million 364-day short-term revolving credit facility was amended, the total amount of the lenders' commitments was reduced to \$168 million under similar terms and the commitment termination date of each eligible lender was extended to August 2003. The short-term revolving credit facility, as amended, allows for Viad to increase the aggregate amount of the lender commitments up to \$200 million.

Cash and corporate investments were \$312.5 million at September 30, 2002 as compared to \$216.1 million at December 31, 2001, with the increase primarily related to 2002 operations. Corporate investments include the balance sheet captions "Short-Term Investments" and "Investments in Securities". At September 30, 2002, investments in securities include a bond purchased for \$20 million during the quarter that did not settle until after quarter end. This resulted in a \$20 million payable related to this investment.

Table of Contents

Viad authorized a stock repurchase program in July 1998 for the purpose of replacing common shares issued upon exercise of stock options and in connection with other stock compensation plans, with the intended effect of reducing dilution caused by the issuance of such shares. This program was on hold for most of 2001 and the first six months of 2002 while cash was conserved given the uncertainty in the economy. In the third quarter of 2002 Viad repurchased 1.2 million shares of its common stock for \$26.3 million to replace common stock issued upon exercise of stock options and in connection with other stock compensation plans. Net proceeds from the exercise of stock options totaled \$10.1 million during the first nine months of 2002.

There were no other material changes in Viad's financial condition nor were there any substantive changes relative to matters discussed in the "Liquidity and Capital Resources" section of Management's Discussion and Analysis of Results of Operations and Financial Condition as presented in Viad Corp's Annual Report on Form 10-K for the year ended December 31, 2001.

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 the historical information contained herein, this Quarterly Report on Form 10-Q 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, or expectations of or current trends in future growth, operating cash flows, availability of short-term borrowings, consumer demand, new business, investment policies, productivity improvements, ongoing cost reduction efforts, efficiency, competitiveness, tax rates, restructure plans (including timing and realization of cost savings) and market risk disclosures. Actual results could differ materially from those projected in forward-looking statements. Viad's businesses can be affected by a host of risks and uncertainties. Among other things, gains and losses of customers, consumer demand patterns, labor relations, purchasing decisions related to customer demand for convention and event services, existing and new competition, industry alliances, consolidation and growth patterns within the industries in which Viad competes and any further deterioration in the economy may individually or in combination impact future results. In addition to the factors mentioned elsewhere, economic, competitive, governmental, technological, capital marketplace and other factors could affect the forward-looking statements contained in this filing.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Viad's market risk exposures relate to fluctuations in interest rates and, to a lesser degree, to fluctuations in foreign exchange rates. Interest rate risk is the risk that changing interest rates will adversely affect the market value and earnings of Viad. Foreign exchange risk is the risk that fluctuating exchange rates will adversely affect earnings. Viad's exposure to these risks is primarily associated with its Payment Services business. Certain derivative financial instruments are used as part of Viad's risk management strategy to manage these exposures. Derivatives are not used for speculative purposes. Viad also has exposure to changing rates related to its pension assumptions (including the expected return on plan assets and the discount rate) and the health care cost trend rate. The rates to be used in 2003 and the impact on earnings have not yet been determined.

A portion of Viad's Payment Services business involves the payment of commissions to selling financial institutions of its official check program as described in Note E. A Viad Payment Services subsidiary has also entered into agreements to sell receivables primarily from its money order agents. The commissions and net proceeds from the agents' receivables sales are computed based on short-term variable interest rates that subject Viad to risk arising from changes in such rates. Viad has hedged a substantial portion of this risk through swap agreements which convert the variable rate payments to fixed rates.

Table of Contents

Stockholders' equity can be adversely affected by changing interest rates, as after-tax changes in the fair value of securities classified as available for sale and in the fair value of derivative financial instruments are included as a component of stockholders' equity. The fair value of derivative financial instruments generally increases when the market value of fixed rate, long-term debt investments decline and vice versa. However, an increase or decrease in stockholders' equity related to changes in the fair value of securities classified as available for sale, may not be offset, in whole or in part, by the decrease or increase in stockholders' equity related to changes in the fair value of derivative financial instruments.

Viad is also 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.

Earnings Sensitivity to Interest Rate Changes. Based on a hypothetical 10 percent proportionate increase in interest rates from the average level of interest rates during the last twelve months, and taking into consideration expected investment positions, commissions paid to selling financial institutions, growth in new business, the effects of the swap agreements and the expected borrowing level of variable-rate debt, the pre-tax income would decrease approximately \$2.9 million. A hypothetical 10 percent proportionate decrease in interest rates, based on the same set of assumptions, would result in an increase in pre-tax income of approximately \$0.5 million. These amounts are estimated based on a certain set of assumptions about interest rates and portfolio balance growth and do not represent expected results. In addition, refer to Management's Discussion and Analysis of Results of Operations and Financial Condition for a discussion of Viad's current period results of operations and the financial impact of interest rate fluctuations.

Fair Value Sensitivity to Interest Rate Changes. The fair value of securities classified as available-for-sale, derivative financial instruments and fixed-rate debt is sensitive to changes in interest rates. A 10 percent proportionate increase in interest rates would result in an estimated decrease in the fair value of securities classified as available-for-sale of approximately \$75.6 million (along with an after-tax decrease in accumulated other comprehensive income of approximately \$46.1 million), an estimated increase in the fair value of Viad's swap agreements of approximately \$42.3 million (along with an after-tax increase in accumulated other comprehensive income of \$25.8 million) and an estimated off-balance-sheet decrease in the fair value of Viad's fixed-rate debt of approximately \$0.6 million. A 10 percent proportionate decrease in interest rates would result in an estimated increase in the fair value of securities classified as available-for-sale of approximately \$69.9 million (along with an after-tax increase in accumulated other comprehensive income of approximately \$42.6 million), an estimated decrease in the fair value of Viad's swap agreements of approximately \$42.3 million (along with an after-tax decrease in accumulated other comprehensive income of \$25.8 million) and an estimated off-balance-sheet increase in the fair value of Viad's fixed-rate debt of approximately \$0.6 million. These amounts are estimated based on a certain set of assumptions about interest rates and portfolio balance growth and are not necessarily indicative of actual current period factors.

Interest Rate Risk and Market Risk Oversight. Viad has established several levels of risk management oversight and control. An investment committee, comprised of senior officers of Viad and Payment Services, and reporting to the Chief Executive Officer of Viad, routinely reviews investment and risk management strategies and results. Additionally, Viad employs an independent advisor to its investment committee. Viad maintains formal procedures for entering into derivative transactions, and management regularly monitors and reports to the Audit Committee of the Board of Directors on such activity. The agreements are with major financial institutions which are currently expected to fully perform under the terms of the agreements, thereby mitigating the credit risk from the transactions in the event of nonperformance by the counterparties. In addition, Viad regularly monitors the credit ratings of the counterparties, and the likelihood of default is considered remote.

Item 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of disclosure controls and procedures has been evaluated within 90 days of the filing date of this quarterly report, and, based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. There were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of that evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities and Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’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 timely decision regarding required disclosure.

PART II. OTHER INFORMATION

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the third quarter of 2002.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit No. 4 – Copy of U.S. \$168,000,000 First Amendment to Credit Agreement (Short-Term Revolving Credit Facility) dated as of August 30, 2002.
- (b) Reports on Form 8-K filed by the registrant in the third quarter 2002.

A report on Form 8-K dated August 6, 2002, was filed August 6, 2002 by the Registrant. The Form 8-K reported under Item 5, that on August 6, 2002, sworn statements of Robert H. Bohannon, Chairman, President and Chief Executive Officer, and Ellen M. Ingersoll, Chief Financial Officer, of Viad Corp regarding facts and circumstances relating to Exchange Act filings of the Company had been filed with the Securities and Exchange Commission pursuant to SEC order No. 4-460.

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.

November 5, 2002

VIAD CORP
(Registrant)

By /s/ Ellen M. Ingersoll

Ellen M. Ingersoll
Chief Financial Officer
(Principle Financial Officer
and Authorized Officer)

CERTIFICATIONS

I, Robert H. Bohannon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Viad Corp;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 5, 2002

By /s/ Robert H. Bohannon

Robert H. Bohannon
Chairman of the Board, President
and Chief Executive Officer

Table of Contents

I, Ellen M. Ingersoll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Viad Corp;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 5, 2002

By /s/ Ellen M. Ingersoll

Ellen M. Ingersoll
Chief Financial Officer

Exhibit Index

Exhibit No. 4 — Copy of U.S. \$168,000,000 First Amendment to Credit Agreement (Short-Term Revolving Credit Facility) dated as of August 30, 2002.

EXHIBIT 4

U.S. \$168,000,000

FIRST AMENDMENT TO CREDIT AGREEMENT

(SHORT TERM REVOLVING CREDIT FACILITY)

Dated as of August 30, 2002

Among

VIAD CORP

as Borrower

and

THE BANKS NAMED HEREIN

as Lenders

and

CITICORP USA, INC.

as Administrative Agent

and

BANK OF AMERICA, N.A. AND WACHOVIA BANK, N.A.

as Co-Documentation Agents

and

JPMORGAN CHASE BANK AND BANK ONE, NA

as Co-Syndication Agents

and

**WELLS FARGO BANK, N.A., ABN-AMRO BANK N.V. AND MELLON BANK, N.A.
as Senior Managing Agents**

and

**LEHMAN COMMERCIAL PAPER INC. AND SUMITOMO MITSUI BANKING CORPORATION
as Co-Agents**

Arranger:

SALOMON SMITH BARNEY INC.

FIRST AMENDMENT

TO CREDIT AGREEMENT

(SHORT TERM REVOLVING CREDIT FACILITY)

This FIRST AMENDMENT TO CREDIT AGREEMENT (SHORT TERM REVOLVING CREDIT FACILITY) (this "AMENDMENT") is dated as of August 30, 2002 and entered into by and among VIAD CORP, a Delaware corporation (the "COMPANY"), as Borrower, the financial institutions (the "LENDERS") listed on the signature pages hereof, and Citicorp USA, Inc. ("CUSA"), as administrative agent (the "ADMINISTRATIVE AGENT") for the Lenders, and is made with reference to that certain Credit Agreement (Short Term Revolving Credit Facility) dated as of August 31, 2001 (the "EXISTING CREDIT AGREEMENT"), by and among the Company, the lenders listed on the signature pages thereof, and the Administrative Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Existing Credit Agreement.

RECITALS

WHEREAS, the Company, the Administrative Agent and the Lenders desire to amend the Existing Credit Agreement (a) to extend the Commitment Termination Date for an additional 364-day period terminating on August 29, 2003, and (b) to evidence, as set forth on Annex II hereto, the Commitment of each Lender on August 30, 2002, reflecting, in each case on such date, the termination of the Commitments of certain Lenders, the reallocation of portions of such terminated Commitments to certain other Lenders, and the decrease in the aggregate amount of the Commitments to \$168,000,000.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO THE EXISTING CREDIT AGREEMENT

1.1 AMENDMENTS TO ARTICLE I: DEFINITIONS AND ACCOUNTING TERMS

Section 1.01 of the Existing Credit Agreement is hereby amended by deleting, in the definition of "Commitment Termination Date," the date "August 30, 2002" and substituting in lieu thereof the date "August 29, 2003."

1.2 AMENDMENTS TO ARTICLE II. AMOUNTS AND TERMS OF THE ADVANCES

Article II of the Existing Credit Agreement is hereby amended by adding the following subsection 2.19 at the end thereof:

"SECTION 2.19 Increased Commitments; Additional Lenders.

(a) Notwithstanding anything contained in Section 8.01, on any Business Day subsequent to the Commitment Termination Date, the Borrower may, upon notice to the Administrative Agent (which shall promptly provide a copy of such

notice to the Lenders), propose to increase the aggregate amount of the Commitments (the amount of any such increase, the "Increased Commitments"); provided that the sum of the Commitments and the Increased Commitments shall not exceed \$200,000,000 in the aggregate.

(b) The Borrower may designate another lender or other lenders (which may be, but need not be, one or more of the existing Lenders, but which shall be an Eligible Assignee), which at the time agree to

(i) in the case of any such lender that is an existing Lender, increase its Commitment and (ii) in the case of any other such lender (an "Additional Lender"), become a party to this Agreement.

(c) An increase in the aggregate amount of the Commitments pursuant to this Section 2.19 shall become effective (the "Increase Effective Date") upon the receipt by the Administrative Agent of an agreement in form and substance satisfactory to the Administrative Agent signed by the Borrower, by each Additional Lender and by each other Lender whose Commitment is to be increased, setting forth the new Commitments of such Lenders and setting forth the agreement of each Additional Lender to become a party to this Agreement and to be bound by all the terms and provisions hereof, together with the certificate referred to in clause (d) below, such evidence of appropriate corporate authorization on the part of the Borrower with respect to the Increased Commitments and such opinions of counsel for the Borrower with respect to the Increased Commitments as the Administrative Agent may reasonably request.

(d) As a condition precedent to such increase, the Borrower shall deliver to the Administrative Agent a certificate dated as of the Increase Effective Date (in sufficient copies for each Lender) signed by an authorized Officer of Borrower (i) certifying and attaching the resolutions adopted by Borrower approving or consenting to such increase, (ii) certifying that, before and after giving effect to such increase, the representations and warranties contained in Article IV and the other Loan Documents are true and correct on and as of the Increase Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date and (iii) certifying that no event has occurred and is continuing, or would result from such Increased Commitments, which constitutes an Event of Default or a Potential Event of Default. The Borrower shall prepay any Loans outstanding on the Increase Effective Date (and pay any additional amounts required pursuant to Section 2.06) to the extent necessary to keep the outstanding Loans ratable pursuant to each Lender's commitment arising from any nonratable increase in the Commitments under this Section."

1.3 AMENDMENTS TO SCHEDULES

A. Schedule I to the Existing Credit Agreement is hereby amended by deleting said Schedule I in its entirety and substituting in place thereof a new Schedule I in the form of Annex I to this Amendment.

B. Schedule II to the Existing Credit Agreement is hereby amended by deleting said Schedule II in its entirety and substituting in place thereof a new Schedule II in the form of Annex II to this Amendment.

SECTION 2. CONDITIONS TO EFFECTIVENESS

This Amendment shall become effective upon receipt by the Administrative Agent of all of the following, in form and substance satisfactory to the Administrative Agent and the Lenders (the date of satisfaction of such condition being referred to herein as the "FIRST AMENDMENT EFFECTIVE DATE"):

A. Documents. On or before the First Amendment Effective Date, Company shall deliver to the Lenders (or to the Administrative Agent for the Lenders with sufficient originally executed copies, where appropriate, for each Lender and its counsel a certificate of a Secretary or an Assistant Secretary of the Company, dated the First Amendment Effective Date, certifying (a) the correctness and completeness of the copies of the Company's Certificate of Incorporation and Bylaws previously delivered to the Administrative Agent, (b) the names and true signatures of the officers of the Company authorized to sign this Amendment and the other documents to be delivered by the Company hereunder, and (c) the correctness and completeness of the copies of the resolutions of the Board of Directors of the Company (or the Executive Committee of the Company together with evidence of the authority of the Executive Committee of the Company) previously delivered to the Administrative Agent.

B. Execution of Amendment. This Amendment executed by each party hereto.

C. Legal Opinion. A favorable opinion of Scott E. Sayre, Esq., General Counsel of the Company, substantially in the form of Exhibit 1 hereto.

SECTION 3. THE COMPANY'S REPRESENTATIONS AND WARRANTIES

In order to induce the Administrative Agent and the Lenders to enter into this Amendment and to amend the Existing Credit Agreement as described herein, the Company represents and warrants to the Administrative Agent and each Lender that the following statements are true, correct and complete on and as of the First Amendment Effective Date:

A. Due Authorization, etc. The execution, delivery and performance by the Company of this Amendment and the Existing Credit Agreement, as amended by this Amendment (the "Amended Agreement"), are within the Company's corporate powers, have been duly authorized by all necessary corporate action, and do not contravene (i) the Company's

certificate of incorporation or bylaws or (ii) law or any material contractual restriction binding on or affecting the Company.

B. Governmental Consent. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Company of this Amendment or the Amended Agreement.

C. Validity. This Amendment has been duly executed and delivered by the Company, and each of this Amendment and the Amended Agreement is the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to the effect of applicable bankruptcy, insolvency, arrangement, moratorium and other similar laws affecting creditors' rights generally and to the application of general principles of equity.

D. Incorporation of Representations and Warranties From the Existing Credit Agreement. The representations and warranties contained in Section 4.01 of the Existing Credit Agreement are true, correct and complete in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

E. Absence of Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute an Event of Default or a Potential Event of Default.

SECTION 4. MISCELLANEOUS

A. Effect of this Amendment. The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Administrative Agent or any Lender under, the Amended Agreement.

B. Headings. Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

C. Applicable Law. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

D. Counterparts; Effectiveness. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple

separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document. This Amendment (other than Section 1 hereof, the effectiveness of which is governed by Section 2 hereof) shall become effective upon the execution of a counterpart hereof by the Company, the Lenders, and the Administrative Agent and receipt by the Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

VIAD CORP, a Delaware corporation, as the Borrower

By /s/ Robert H. Bohannon

Name: Robert H. Bohannon
Title: Chairman of the Board, President
& Chief Executive Officer

By /s/ Ellen M. Ingersoll

Name: Ellen M. Ingersoll
Title: Chief Financial Officer

CITICORP USA, INC., as the Administrative Agent and as a Lender

By /s/William Timmons

Name: William Timmons
Title: Vice President

JPMORGAN CHASE BANK, as Co-Syndication Agent and as a Lender

By /s/William P. Rundfuss

Name: William P. Rundfuss
Title: Vice President

BANK ONE, NA, as Co-Syndication Agent and as a Lender

By /s/Karen C. Ryan

Name: Karen C. Ryan
Title: Director

BANK OF AMERICA, N.A., as Co-Documentation Agent and as a Lender

By /s/Kenneth J. Beck

Name: Kenneth J. Beck
Title: Principal

WACHOVIA BANK, N.A., as Co-Documentation Agent and as a Lender

By /s/Daniel Evans

Name: Daniel Evans
Title: Managing Director

WELLS FARGO BANK, N.A., as a Lender

By /s/Paul K. Stimpfl

Name: Paul K. Stimpfl
Title: Senior Vice President

ABN-AMRO BANK N.V., as a Lender

By /s/Peter J. Hallan

Name: Peter J. Hallan
Title: Vice President

By /s/John L. Church

Name: John L. Church
Title: Senior Vice President

MELLON BANK, N.A., as a Lender

By /s/ L. C. Ivey

Name: Lawrence C. Ivey
Title: First Vice President

LEHMAN BROTHERS BANK, FSB, as a Lender

By /s/Gary T. Taylor

Name: Gary T. Taylor

Title: Vice President

**SUMITOMO MITSUI BANKING CORPORATION, as a
Lender**

By /s/ Al Galluzzo

Name: Al Galluzzo

Title: Senior Vice President

**ANNEX I
SCHEDULE I
APPLICABLE LENDING OFFICES**

BANK	DOMESTIC LENDING OFFICE:	EURODOLLAR LENDING OFFICE
CITICORP USA, INC.	Citicorp USA, Inc. Citibank Agency Services 2 Penns Way, Suite 200 New Castle, DE 19720 Attention: Janet Wallace Telephone: (302) 894-6029 Facsimile: (302) 894-6120	Citicorp USA, Inc. Citibank Agency Services 2 Penns Way, Suite 200 New Castle, DE 19720 Attention: Janet Wallace Telephone: (302) 894-6029 Facsimile: (302) 894-6120
JPMORGAN CHASE BANK	JPMorgan Chase Bank 560 Mission Street, 18/F San Francisco, CA 94105 Attn: William Rindfuss Telephone: (415) 315-8232 Facsimile: (415) 315-8332	JPMorgan Chase Bank 560 Mission Street, 18/F San Francisco, CA 94105 Attn: William Rindfuss Telephone: (415) 315-8232 Facsimile: (415) 315-8332
BANK ONE, NA	Bank One, NA One Bank One Plaza Chicago, Illinois 60670 Attn: Kathleen L. Majcher Facsimile: (213) 683-4949	Bank One, NA One Bank One Plaza Chicago, Illinois 60670 Attn: Kathleen L. Majcher Facsimile: (213) 683-4949
BANK OF AMERICA, N.A.	Bank of America, N.A. 1850 Gateway Blvd., Mail Code: CA4-706-05-11 Concord, California 94520-3282 Attn: Gloria Myers, CSR Facsimile: (888) 969-9237	Bank of America, N.A. 1850 Gateway Blvd., Mail Code: CA4-706-05-11 Concord, California 94520-3282 Attn: Gloria Myers, CSR Facsimile: (888) 969-9237
WACHOVIA BANK, N.A.	Wachovia Bank, N.A. 191 Peachtree Street Atlanta, Georgia 30303 Attn: Christopher Borin Facsimile: (404) 332-4048	N/A
WELLS FARGO BANK, N.A.	Wells Fargo Bank, N.A. 201 3rd Street San Francisco, California 94103 Attn: Ginnie Padgett	Wells Fargo Bank, N.A. 201 3rd Street San Francisco, California 94103 Attn: Ginnie Padgett

BANK	DOMESTIC LENDING OFFICE:	EURODOLLAR LENDING OFFICE
ABN-AMRO BANK N.V.	ABN-AMRO Bank N.V. 208 South LaSalle Street, Suite 1500 Chicago, Illinois 60604-1003 Attn: Credit Administration Facsimile: (312) 992-5111	ABN-AMRO Bank N.V. 208 South LaSalle Street, Suite 1500 Chicago, Illinois 60604-1003 Attn: Credit Administration Facsimile: (312) 992-5111
MELLON BANK, N.A.	Mellon Bank, N.A. Three Mellon Bank, Rm. 2300 Pittsburgh, Pennsylvania 15259	Mellon Bank, N.A. Three Mellon Bank, Rm. 2300 Pittsburgh, Pennsylvania 15259
LEHMAN BROTHERS BANK, FSB	Lehman Brothers Bank, FSB 745 Seventh Avenue, 19th Floor New York, NY 10019 Attn: Michele Swanson Phone: (212) 526-0330 Fax: (212) 526-0242	Lehman Brothers Bank, FSB 745 Seventh Avenue, 19th Floor New York, NY 10019 Attn: Michele Swanson Phone: (212) 526-0330 Fax: (212) 526-0242
SUMITOMO MITSUI BANKING CORPORATION	Sumitomo Mitsui Banking Corporation 277 Park Avenue New York, New York 10172 Attn: Deal Administration, Paul Kane Facsimile: (212) 224-5488	Sumitomo Mitsui Banking Corporation 277 Park Avenue New York, New York 10172 Attn: Deal Administration, Paul Kane Facsimile: (212) 224-5488

**ANNEX II
SCHEDULE II**

COMMITMENTS

LENDER -----	COMMITMENT -----
Citicorp USA, Inc.	24,250,000
JPMorgan Chase Bank	13,750,000
Bank One, NA	20,000,000
Bank of America, N.A.	20,000,000
Wachovia Bank, N.A.	20,000,000
Wells Fargo Bank, N.A.	15,000,000
ABN-AMRO Bank, N.V.	15,000,000
Mellon Bank, N.A.	15,000,000
Lehman Brothers Bank, FSB	12,500,000
Sumitomo Mitsui Banking Corporation	12,500,000
	=====
TOTAL	168,000,000

EXHIBIT 1

FORM OF OPINION

[VIAD LOGO]

Scott E. Sayre
Vice President - General Counsel and
Secretary
(602) 207-5626
Fax (602) 207-5480

VIAD CORP
1850 North Central Avenue
Phoenix, AZ 85077-1012

August 30, 2002

Citicorp USA, Inc., as Administrative Agent 1 Court Square
Long Island City, New York 11120

and

Each of the financial institutions
listed as Lenders on the signature
pages of the First Amendment to
Credit Agreement Referred to Below

RE: FIRST AMENDMENT TO CREDIT AGREEMENT (SHORT TERM REVOLVING CREDIT FACILITY) DATED AS OF AUGUST 30, 2002, AMONG VIAD CORP, THE BANKS NAMED THEREIN AND CITICORP USA, INC. AS ADMINISTRATIVE AGENT

Ladies and Gentlemen:

I am Vice President and General Counsel of Viad Corp, a Delaware corporation (the "Borrower"), and as such have acted as counsel to the Borrower in connection with the negotiation, execution and delivery by the Borrower of the First Amendment to Credit Agreement (Short Term Revolving Credit Facility) dated as of August 30, 2002 (the "Credit Agreement") among the Borrower, the financial institutions listed therein as Lenders and Citicorp USA, Inc. as Administrative Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings given them in the Amended Agreement (as defined below).

This opinion is delivered to you pursuant to Section 2C of the Amendment. I, or attorneys supervised by me, have examined the Amendment and that certain Credit Agreement (Short Term Revolving Credit Facility) dated as of August 31, 2001 (as amended by the Amendment, the "Amended Agreement"), by and among the Company, the lenders listed on the signature pages thereof, and the Administrative Agent, and I have examined or

Exhibit 1-1

am familiar with originals or copies, the authenticity of which has been established to my satisfaction of such other documents, corporate records, agreements and instruments, and certificates of public officials and of officers of the Borrower as I have deemed necessary or appropriate to enable me to express the opinions set forth below. As to questions of fact material to such opinions, I have, when relevant facts were not independently established, relied upon certification by officers of the Borrower, which I believe to be reliable.

The opinions hereinafter expressed are subject to the fact that I am a member of the State Bar of Arizona and do not hold myself out as an expert on the laws of other states or jurisdictions except (i) the federal law of the United States of America, (ii) the General Corporation Law of the State of Delaware, and (iii) the laws of New York relevant to the opinions herein expressed.

Based upon the foregoing and having regard to legal considerations which I have deemed relevant, it is my opinion that:

1. The Borrower is a corporation validly existing and in good standing under the laws of the State of Delaware and is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions which require such qualification, except to the extent that failure to so qualify would not have a material adverse effect on the Borrower. The Borrower has all requisite corporate power and authority to own and operate its properties, to conduct its business as presently conducted, and to execute, deliver and perform its obligations under the Amendment and the Amended Agreement.
2. The Amendment has been duly authorized by all necessary corporate action on the part of the Borrower and has been duly executed and delivered by the Borrower. Each of the Amendment and the Amended Agreement constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency and reorganization laws and other similar laws governing the enforcement of lessors' or creditors' rights and by the effects of specific performance, injunctive relief and other equitable remedies.
3. Neither the execution and delivery by the Borrower of the Amendment and the Amended Agreement, nor consummation of the transactions contemplated thereby, nor compliance on or prior to the date hereof with the terms and conditions thereof by the Borrower conflicts with or is a violation of, its certificate of incorporation or bylaws, each as in effect on the date hereof. Neither the execution and delivery by the Borrower of the Amendment and the Amended Agreement, nor the consummation of the transactions contemplated thereby, nor compliance on or prior to the date hereof with the terms and conditions thereof by the Borrower will result in a violation of any applicable federal or New York law, governmental rule or regulation or of the Corporation Law of the State of Delaware or conflicts with, will result in a breach of, or constitutes a default under, any provision of any indenture, agreement or other instrument to which the Borrower is a party or any of its properties may be bound ("Material Agreements"), or any order, judgment or decree to which the Borrower or any of its assets are bound ("Judicial Orders"), or will result in the creation or imposition of any lien upon any property or assets of the Borrower pursuant to any Material Agreement or Judicial Order.

Exhibit 1-2

4. No consent, approval or authorization of, and no registration, declaration or filing with, any administrative, governmental or other public authority of the United States of America or the State of New York or under the Corporation Law of the State of Delaware is required by law to be obtained or made by the Borrower for the execution, delivery and performance by the Borrower of the Amendment or the Amended Agreement, except such filings as may be required in the ordinary course to keep in full force and effect rights and franchises material to the business of the Borrower and in connection with the payment of taxes.

This opinion is delivered to the Administrative Agent and the Banks as of the date hereof in connection with the Amendment, and may not be relied upon by any person other than the Administrative Agent and the Banks and their permitted assignees, or by them in any other context, and may not be furnished to any other person or entity without my prior written consent, provided that each Bank and its permitted assignees may provide this opinion (i) to bank examiners and other regulatory authorities should they so request or in connection with their normal examination, (ii) to the independent auditors and attorneys of such Bank, (iii) pursuant to order or legal process of any court or governmental agency, (iv) in connection with any legal action to which the Bank is a party arising out of the transactions contemplated by the Amendment and the Credit Agreement, or (v) in connection with the assignment of or sale of participations in the Advances.

Very truly yours,

/s/ Scott E. Sayre

Exhibit 1-3

VIAD CORP

**FIRST AMENDMENT TO CREDIT AGREEMENT
(SHORT TERM REVOLVING CREDIT FACILITY)**

(155,076-039)

CLOSING INDEX

August 30, 2002

(Closing Index)

TAB

CONTENTS

BASIC DOCUMENTS

- E. First Amendment to Credit Agreement (Short Term Revolving Credit Facility), dated as of August 30, 2002.
- A. Annex 1. Schedule I. Applicable Lending Offices
- B. Annex 2. Schedule II. Commitments
- C. Exhibit 1. Form of Opinion

LEGAL OPINION

- 2. Opinion of Scott E. Sayre, Esq., General Counsel of VIAD Corp

ORGANIZATIONAL DOCUMENTS OF BORROWER

- 3. Secretary's Certificate of VIAD Corp
- A. Exhibit A. Incumbency Certificate of VIAD Corp

End of Filing

Powered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.