

VIAD CORP

FORM 10-Q (Quarterly Report)

Filed 8/12/2003 For Period Ending 6/30/2003

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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 June 30, 2003
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)

1850 N. Central Ave., Phoenix, Arizona
(Address of principal executive offices)

36-1169950
(I.R.S. Employer
Identification No.)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes No

As of July 31, 2003, 88,367,415 shares of Common Stock (\$1.50 par value) were outstanding.

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PART I. Financial Information

Item 1. Financial Statements

VIAD CORP
CONSOLIDATED BALANCE SHEETS

	June 30, 2003	December 31, 2002
	(unaudited)	
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 39,329	\$ 57,219
Other investments in securities	82,272	246,338
Receivables, net	76,352	50,818
Inventories	30,877	41,839
Deferred income taxes	51,157	55,747
Other current assets	38,108	35,366
	<hr/>	<hr/>
	318,095	487,327
Funds, agent receivables and current maturities of investments available or restricted for payment service obligations	2,335,079	1,904,015
	<hr/>	<hr/>
Total current assets	2,653,174	2,391,342
Investments available or restricted for payment service obligations	6,834,750	6,268,080
Property and equipment, net	251,707	248,099
Other investments and assets	53,805	58,079
Deferred income taxes	98,436	125,894
Goodwill	650,846	549,461
Other intangible assets, net	34,456	34,474
	<hr/>	<hr/>
Total Assets	\$10,577,174	\$9,675,429
	<hr/>	<hr/>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 62,414	\$ 63,188
Other current liabilities	200,683	230,857
Current portion of long-term debt	4,238	103,995
	<hr/>	<hr/>
	267,335	398,040
Payment service obligations	8,876,741	7,945,760
	<hr/>	<hr/>
Total current liabilities	9,144,076	8,343,800
Long-term debt	257,312	257,662
Pension and other postretirement benefits	113,088	110,895
Derivative financial instruments	115,354	126,527
Other deferred items and insurance liabilities	138,482	133,288
Minority interests	3,455	18,659
\$4.75 Redeemable preferred stock	6,718	6,704
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	211,835	215,872
Retained income	828,367	781,441
Unearned employee benefits and other	(62,446)	(66,143)
Accumulated other comprehensive income (loss):		
Unrealized gain on securities classified as available-for-sale	131,260	91,640
Unrealized loss on derivative financial instruments	(138,601)	(150,557)
Cumulative foreign currency translation adjustments	5,614	(9,655)
Minimum pension liability adjustment	(34,274)	(34,274)
Common stock in treasury, at cost, 11,373,343 and 11,638,090 shares	(292,676)	(300,040)
	<hr/>	<hr/>
Total common stock and other equity	798,689	677,894

Total Liabilities and Stockholders' Equity

\$10,577,174

\$9,675,429

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
		(as restated, See Note 2)		(as restated, See Note 2)
		(in thousands, except per share data)		
Revenues:				
Convention show services	\$161,511	\$142,773	\$336,453	\$336,152
Payment services transaction fees	118,750	107,345	233,194	205,649
Payment services investment income	84,890	84,477	159,457	167,018
Exhibit design and construction	62,386	56,677	109,500	118,105
Hospitality and recreation services	12,293	13,129	15,575	16,299
	<u>439,830</u>	<u>404,401</u>	<u>854,179</u>	<u>843,223</u>
Costs and expenses:				
Costs of services	323,503	298,284	651,375	632,008
Costs of products sold	56,810	53,656	106,115	112,428
Corporate activities and minority interests	2,956	7,291	6,701	11,851
Net interest expense	3,069	3,575	6,117	7,364
Restructuring recovery	(1,276)	—	(1,276)	—
	<u>385,062</u>	<u>362,806</u>	<u>769,032</u>	<u>763,651</u>
Income before income taxes and change in accounting principle	54,768	41,595	85,147	79,572
Income tax expense	13,900	11,880	22,248	21,461
	<u>40,868</u>	<u>29,715</u>	<u>62,899</u>	<u>58,111</u>
Income before change in accounting principle	40,868	29,715	62,899	58,111
Change in accounting principle, net of tax	—	—	—	(37,739)
	<u>40,868</u>	<u>29,715</u>	<u>62,899</u>	<u>20,372</u>
Net income	<u>\$ 40,868</u>	<u>\$ 29,715</u>	<u>\$ 62,899</u>	<u>\$ 20,372</u>
Diluted income per common share				
Income per share before change in accounting principle	\$ 0.47	\$ 0.34	\$ 0.72	\$ 0.66
Change in accounting principle, net of tax	—	—	—	(0.43)
	<u>0.47</u>	<u>0.34</u>	<u>0.72</u>	<u>0.23</u>
Net income per common share	\$ 0.47	\$ 0.34	\$ 0.72	\$ 0.23
	<u>86,508</u>	<u>87,672</u>	<u>86,418</u>	<u>87,200</u>
Average outstanding and potentially dilutive common shares	86,508	87,672	86,418	87,200
Basic income per common share				
Income per share before change in accounting principle	\$ 0.47	\$ 0.34	\$ 0.72	\$ 0.67
Change in accounting principle, net of tax	—	—	—	(0.44)
	<u>0.47</u>	<u>0.34</u>	<u>0.72</u>	<u>0.23</u>
Net income per common share	\$ 0.47	\$ 0.34	\$ 0.72	\$ 0.23
	<u>86,224</u>	<u>86,693</u>	<u>86,116</u>	<u>86,394</u>
Average outstanding common shares	86,224	86,693	86,116	86,394
Dividends declared per common share	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.18

See Notes to Consolidated Financial Statements.

VIAD CORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
		(as restated, See Note 2)		(as restated, See Note 2)
		(in thousands)		
Net income	\$ 40,868	\$ 29,715	\$ 62,899	\$ 20,372
Other comprehensive income:				
Unrealized gains (losses) on available-for-sale securities:				
Reclassification of securities from held-to-maturity to available-for-sale, net of tax expense	—	—	30,222	—
Holding gains arising during the period, net of tax expense	16,966	57,845	13,874	36,891
Reclassification adjustment for net realized gains included in net income, net of tax expense	(1,754)	(1,304)	(4,476)	(3,453)
	<u>15,212</u>	<u>56,541</u>	<u>39,620</u>	<u>33,438</u>
Unrealized gains (losses) on derivative financial instruments:				
Holding losses arising during the period, net of tax benefit	(14,739)	(72,071)	(30,993)	(61,216)
Net reclassifications from other comprehensive income to net income, net of tax benefit	21,548	19,895	42,949	38,607
	<u>6,809</u>	<u>(52,176)</u>	<u>11,956</u>	<u>(22,609)</u>
Unrealized foreign currency translation gains	9,478	5,208	15,269	4,867
Other comprehensive income	<u>31,499</u>	<u>9,573</u>	<u>66,845</u>	<u>15,696</u>
Comprehensive income	<u>\$ 72,367</u>	<u>\$ 39,288</u>	<u>\$129,744</u>	<u>\$ 36,068</u>

See Notes to Consolidated Financial Statements.

VIAD CORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30,	
	2003	2002
	(in thousands)	
	(as restated, See Note 2)	
Cash flows from operating activities:		
Net income	\$ 62,899	\$ 20,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,794	25,753
Deferred income taxes	(834)	4,030
Change in accounting principle	—	40,000
Investment impairment charges	20,813	10,309
Restructuring recovery	(1,276)	—
Realized gains on investments and other assets	(7,833)	(5,882)
Other noncash items, net	20,449	5,425
Change in operating assets and liabilities:		
Receivables	(26,977)	(16,929)
Inventories	10,962	4,434
Accounts payable	(774)	(5,757)
Other assets and liabilities, net	(22,031)	11,627
	<u>80,192</u>	<u>93,382</u>
Change in payment service assets and obligations, net	554,184	(766)
Net cash provided by operating activities	<u>634,376</u>	<u>92,616</u>
Cash flows from investing activities:		
Capital expenditures	(18,183)	(17,711)
Acquisition of minority interest, net of proceeds from disposals of property and other assets	(97,416)	543
Proceeds from sales and maturities of available-for-sale securities	1,943,612	1,253,041
Proceeds from maturities of held-to-maturity securities	283,690	279,057
Purchases of available-for-sale securities	(2,639,873)	(1,123,574)
Purchases of held-to-maturity securities	—	(455,119)
Net cash used in investing activities	<u>(528,170)</u>	<u>(63,763)</u>
Cash flows from financing activities:		
Payments on long-term borrowings	(100,367)	(418)
Net change in short-term borrowings	—	(10,457)
Dividends paid on common and preferred stock	(16,078)	(16,150)
Dividend paid to minority interest	(8,115)	—
Proceeds from exercise of stock options	1,440	8,965
Purchases of common stock for treasury	(976)	(2,045)
Net cash used in financing activities	<u>(124,096)</u>	<u>(20,105)</u>
Net increase (decrease) in cash and cash equivalents	(17,890)	8,748
Cash and cash equivalents, beginning of year	57,219	46,593
Cash and cash equivalents, end of period	<u>\$ 39,329</u>	<u>\$ 55,341</u>

See Notes to Consolidated Financial Statements.

VIAD CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Basis of Preparation and Principles of Consolidation

The accompanying unaudited consolidated financial statements of Viad Corp (Viad or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003. Certain prior period amounts have been reclassified to conform to the current period presentation.

For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2002, included in the Company's Form 10-K/A (File No. 001-11015), filed with the Securities and Exchange Commission on June 2, 2003.

The consolidated financial statements include the accounts of Viad and all of its subsidiaries. The consolidated financial statements also include the accounts of MoneyGram International Limited (MIL), which was a majority-owned subsidiary prior to the acquisition of the remaining minority interest by the Company in January 2003. See Note 4, "Acquisition of Minority Interest." All significant intercompany account balances and transactions between Viad and its subsidiaries have been eliminated in consolidation.

Viad's Payment Services segment participates in various trust arrangements (special-purpose entities) related to structured investments within its investment portfolio, official check processing agreements with financial institutions, and the sale of certain receivables. Certain structured investments owned by Viad represent beneficial interests in grantor trusts or other similar entities. These trusts typically contain an investment grade security, generally a U.S. Treasury strip, and an investment in the residual interest in a collateralized debt obligation (CDO equity), or in some cases, a limited partnership interest. For certain of these trusts, the Payment Services segment owns the majority of the beneficial interests, and therefore, consolidates those trusts by recording and accounting for the assets of the trust separately in Viad's consolidated financial statements.

In connection with its PrimeLink (formerly official check) business, the Payment Services segment has established separate trust entities and processes that provide certain financial institution customers additional assurance of their ability to clear official checks. The assets, liabilities, revenues and expenses associated with these arrangements are consolidated in Viad's financial statements. Additionally, the Payment Services segment has an agreement to sell, on a periodic basis, undivided percentage ownership interests in certain receivables primarily from its money order agents. These receivables are sold to commercial paper conduits and represent a small percentage of the total assets in such conduits. Viad's rights and obligations are limited to the receivables transferred, and are accounted for as a sales transaction under Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The assets and liabilities associated with the conduits, including the sold receivables, are not recorded or consolidated in Viad's financial statements.

See Note 13, "Recent Accounting Pronouncements," for further information regarding consolidation of variable interest entities.

Note 2 – Restatement of Financial Statements

Viad's Payment Services float portfolio of approximately \$7.7 billion (consisting of \$6.8 billion of "Investments available or restricted for payment service obligations" and \$850 million of cash and investments included under "Funds, agent receivables and current maturities of investments available or restricted for payment service obligations") consists

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primarily of mortgage-backed and other asset-backed securities, state and municipal government obligations and corporate debt securities. Included in other asset-backed securities were certain structured investments, which the Payment Services segment began purchasing in 1999. These structured investments are designed to be “principal-protected” and generally consist of a zero coupon U.S. Treasury or government agency strip security combined with a CDO equity. In certain cases, the structured investment consists of an investment grade security and a limited partnership interest. At maturity, the amount of the zero coupon or investment grade security generally equals the purchase price of the total structured investment. The structured investments are typically held in the form of a note issued by a trust, which had purchased the two underlying securities described above.

Payment Services routinely performs a review of the actual and projected cash flows related to the structured notes and historically applied the accounting treatment prescribed by Emerging Issues Task Force Issue No. 96-12, “Recognition of Interest Income and Balance Sheet Classification of Structured Notes” (EITF 96-12). Furthermore, these structured notes were accounted for as single debt instruments, representing the combined characteristics of the individual securities. The accounting treatment under EITF 96-12 generally provides for a level yield over the life of the investment and requires a retrospective adjustment to interest income upon a change in projected cash flows.

Subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2002, and prior to the announcement of first quarter 2003 earnings, it was determined that the majority of the structured notes should have been accounted for under the provisions of Emerging Issues Task Force Issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets” (EITF 99-20). EITF 99-20 generally requires those applicable investments to be written down to fair value when an adverse change in actual or projected cash flows occurs.

It was also determined that certain of these structured notes should have been consolidated in the financial statements to the extent that Payment Services owned a majority of the beneficial interests in the trust which was formed to create the structured note. Consolidation of these trusts requires that the two components of the structured note be accounted for as separate securities in the financial statements in contrast to the single debt instrument approach previously taken. The effect of the consolidation is that increases in the market value of the U.S. Treasury strips cannot offset other-than-temporary impairment losses on the equity component. Also, CDO equity should have been accounted for under EITF 99-20, and the equity method of accounting should have been applied to the structured notes containing limited partnership interests. Under the equity method, a proportionate share of income or losses should be recorded as an adjustment to the original investment amount and reflected through earnings.

Based on the retroactive application of EITF 99-20, the equity method of accounting, and the consolidation of the individual securities within the structured notes for which Payment Services owns a majority of the related trust, it was determined that aggregate impairment losses and interest income adjustments of \$60.0 million (pre-tax) related to the structured note investments should be recorded. Based on the timing of the changes in cash flows, and the effects of consolidating certain structured note investments, the impairment losses and adjustments did not relate exclusively to the first quarter of 2003, but also related to the 2002 and 2001 financial results. The impairment losses and interest income adjustments were recorded in the Consolidated Statements of Income under “Payment services investment income.” Furthermore, the CDO equity and limited partnership interests are classified in “Other asset-backed securities” and the zero coupon U.S. Treasury strips are classified as “U.S. government agencies.” See Note 5, “Assets and Investments Available or Restricted for Payment Service Obligations.”

Viad restated its 2002 and 2001 consolidated financial statements to reflect the adjustments described above.

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A summary of the significant effects of the restatement on Viad's Consolidated Statements of Income and related segment data is presented below for the three and six months ended June 30, 2002. Certain reclassifications have been made to the "as previously reported" amounts to conform to the current presentation. The change in accounting principle in 2002 reflects the retroactive application of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142).

	Three months ended June 30, 2002		Six months ended June 30, 2002	
	(as previously reported)	(as restated)	(as previously reported)	(as restated)
	(in thousands)			
Total Company:				
Total revenues	\$408,511	\$404,401	\$853,532	\$843,223
Income before income taxes and change in accounting principle	\$ 45,705	\$ 41,595	\$ 89,881	\$ 79,572
Income tax expense	13,439	11,880	25,271	21,461
Income before change in accounting principle	32,266	29,715	64,610	58,111
Change in accounting principle, net of tax	—	—	(37,739)	(37,739)
Net income	\$ 32,266	\$ 29,715	\$ 26,871	\$ 20,372
Diluted income per common share:				
Income per share before change in accounting principle	\$ 0.36	\$ 0.34	\$ 0.73	\$ 0.66
Change in accounting principle, net of tax	—	—	(0.43)	(0.43)
Net income per common share	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.23
Basic income per common share:				
Income per share before change in accounting principle	\$ 0.37	\$ 0.34	\$ 0.74	\$ 0.67
Change in accounting principle, net of tax	—	—	(0.44)	(0.44)
Net income per common share	\$ 0.37	\$ 0.34	\$ 0.30	\$ 0.23
Payment Services segment:				
Revenue	\$195,932	\$191,822	\$382,976	\$372,667
Operating income	\$ 39,254	\$ 35,144	\$ 71,038	\$ 60,729

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Note 3 – Stock-Based Compensation

As permitted by Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (SFAS 123), Viad uses the intrinsic value method of accounting for stock-based compensation awards prescribed by Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB 25). Accordingly, Viad does not record an expense over the related service period based on the grant-date fair value of all stock-based awards. In accordance with the disclosure requirements of Statement of Financial Accounting Standards No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure,” the following table summarizes Viad’s net income and diluted and basic income per share both as reported and on a pro forma basis as if Viad had applied the expense recognition provisions of SFAS 123 for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
		(in thousands, except per share data)		
Net income, as reported	\$40,868	\$29,715	\$62,899	\$20,372
Plus: stock-based employee compensation expense recorded under APB 25, net of tax	—	—	248	—
Less: stock-based employee compensation expense determined under fair value based method, net of tax	(1,236)	(1,288)	(2,204)	(2,909)
Pro forma net income	\$39,632	\$28,427	\$60,943	\$17,463
Diluted income per share:				
As reported	\$ 0.47	\$ 0.34	\$ 0.72	\$ 0.23
Pro forma	\$ 0.46	\$ 0.32	\$ 0.70	\$ 0.19
Basic income per share:				
As reported	\$ 0.47	\$ 0.34	\$ 0.72	\$ 0.23
Pro forma	\$ 0.46	\$ 0.32	\$ 0.70	\$ 0.20

Note 4 – Acquisition of Minority Interest

In January 2003, MoneyGram Payment Systems, Inc. (MoneyGram), a subsidiary of Travelers Express Company, Inc. (a subsidiary of Viad), acquired the 49 percent minority interest in MIL from Travelex Group (Travelex). MIL provides international money transfer services primarily in Europe, Africa, Asia and Australia. Prior to the acquisition, MoneyGram owned a 51 percent interest in MIL. The acquisition gives MoneyGram total ownership of MIL.

As a majority-owned subsidiary, MIL’s financial results were consolidated in Viad’s financial statements prior and subsequent to the acquisition. The total consideration paid to Travelex included a \$98.0 million cash payment by MoneyGram and a dividend paid by MIL of \$8.1 million. At the acquisition date, additional goodwill of \$97.5 million was recorded related to the Payment Services segment. The amount of goodwill expected to be deductible for tax purposes is not significant.

Note 5 – Assets and Investments Available or Restricted for Payment Service Obligations

Viad’s Payment Services subsidiaries generate funds from the sale of official checks, money orders and other payment instruments, with the related liabilities classified in the Consolidated Balance Sheets under “Payment service obligations.” Substantially all of the proceeds of such sales are invested in permissible securities, principally high-quality debt instruments. These investments, along with related cash and funds in transit, are restricted by the Payment Services segment 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. Such assets are not available to satisfy working capital or other financing requirements of Viad. Investment securities are included in the Consolidated Balance Sheets under, “Investments available

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or restricted for payment service obligations.” Certain additional assets of the Payment Services subsidiaries relating to payment service obligations, including cash, funds in transit from agents, and securities expected to be sold or maturing within one year, are included under, “Funds, agent receivables and current maturities of investments available or restricted for payment service obligations.”

At June 30, 2003, all investment securities available or restricted for payment service obligations were classified as available-for-sale as they are held for indefinite periods of time and include those securities which may be sold to assist in the clearing of payment service obligations or in the management of investments. These securities are reported at fair value with unrealized gains and losses, net of tax, included in the Consolidated Balance Sheets as a component of “Accumulated other comprehensive income (loss).”

Interest income, realized gains and losses on the disposition of investments and impairment losses are included in the Consolidated Statements of Income under “Payment services investment income.” The specific identification method is used to determine the cost basis of securities sold.

Viad’s investments available or restricted for payment service obligations consist primarily of mortgage-backed securities, other asset-backed securities, state and municipal government obligations and corporate debt securities. Other asset-backed securities are collateralized by various types of loans and leases, including home equity, corporate, manufactured housing, credit card, and airline. Interest income on mortgage-backed and other asset-backed securities for which the risk of credit loss is deemed remote is recorded utilizing the level yield method. Changes in estimated cash flows, both positive and negative, are accounted for with retrospective changes to the carrying value of investments in order to maintain a level yield over the life of the investment.

Interest income on mortgage-backed and other asset-backed investments for which risk of credit loss is not deemed remote is recorded under the prospective method in accordance with EITF 99-20. EITF 99-20 requires that such changes be accounted for prospectively as adjustments of yield. Under EITF 99-20, investments are evaluated for impairment when an adverse cash flow change occurs. If the fair value of a security is less than its carrying value when an adverse cash flow change occurs, the investment is written down to fair value. Fair value is generally based on quoted market prices. However, certain investment securities are not readily marketable. As a result, the carrying value of these investments is based on cash flow projections which require a significant degree of management judgment as to default and recovery rates of the underlying investments. Any such impairment charges are included in the Consolidated Statements of Income under “Payment services investment income.” Viad regularly monitors credit and market risk exposures and attempts to mitigate the likelihood of these exposures resulting in actual loss.

As described in Note 8, “Derivative Financial Instruments,” Payment Services uses swap agreements to hedge a substantial portion of the variable rate commission payments to its financial institution customers of its PrimeLink product and the net proceeds from the sale of receivables primarily from money order agents. These swap agreements effectively convert such variable rates to fixed rates. The fair value of these swap agreements generally increases when market values of fixed rate, long-term debt investments decline and vice versa. Payment Services also uses swap agreements to hedge the fair value of some of its available-for-sale securities. These swap agreements effectively convert the fixed rates on the securities to variable rates. The reported fair value of these derivative financial instruments represents the estimated amount that Viad would pay to counterparties to terminate the swap agreements.

Normally, 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 short-term and long-term investments are expected to be adequate to settle payment service obligations as they are presented. In addition, Viad’s Payment Services subsidiaries have various lines of credit, overdraft facilities and reverse repurchase agreements totaling \$1.9 billion available to assist in the management of investments and the clearing of payment service obligations. Amounts outstanding under reverse repurchase agreements are required to be collateralized by securities. No amounts were outstanding under these arrangements at June 30, 2003 or December 31, 2002.

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

	June 30, 2003	December 31, 2002
	(in thousands)	
Funds, agent receivables and current maturities of investments available or restricted for payment service obligations	\$ 2,335,079	\$ 1,904,015
Investments available or restricted for payment service obligations (1)	6,834,456	6,268,080
Payment service obligations (1)	(8,762,227)	(7,825,954)
Fair value of derivative financial instruments (1)	(229,574)	(246,333)
Total	\$ 177,734	\$ 99,808

- (1) The current liability portions of derivative financial instruments of \$114.5 million and \$119.8 million at June 30, 2003 and December 31, 2002, respectively, are included in the Consolidated Balance Sheets under "Payment service obligations." The long-term asset portion of derivative financial instruments of \$294,000 at June 30, 2003 is included in the Consolidated Balance Sheets under "Investments available or restricted for payment service obligations."

Securities Classified as Available-for-Sale. A summary of securities classified as available-for-sale at June 30, 2003 is presented below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. Government agencies	\$ 331,468	\$ 22,373	\$ —	\$ 353,841
Obligations of states and political subdivisions	1,146,618	93,779	—	1,240,397
Corporate debt securities	457,284	31,304	(523)	488,065
Mortgage-backed and other asset-backed securities	4,715,773	98,417	(31,189)	4,783,001
Debt securities issued by foreign governments	10,395	265	—	10,660
Preferred stock	86,626	2,534	(1,140)	88,020
Securities classified as available-for-sale	\$6,748,164	\$248,672	\$(32,852)	\$6,963,984

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A summary of securities classified as available-for-sale at December 31, 2002 is presented below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. Government agencies	\$ 197,459	\$ 4,711	\$ (1)	\$ 202,169
Obligations of states and political subdivisions	715,149	44,420	(1)	759,568
Corporate debt securities	301,283	15,590	(927)	315,946
Mortgage-backed and other asset-backed securities	3,420,415	106,469	(16,415)	3,510,469
Debt securities issued by foreign governments	4,997	127	—	5,124
Preferred stock	97,074	583	(5,193)	92,464
Securities classified as available-for-sale	<u>\$4,736,377</u>	<u>\$171,900</u>	<u>\$(22,537)</u>	<u>\$4,885,740</u>

A summary of securities classified as held-to-maturity at December 31, 2002 is presented below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. Government agencies	\$ 121,233	\$11,781	\$ (104)	\$ 132,910
Obligations of states and political subdivisions	447,155	31,419	—	478,574
Corporate debt securities	18,038	1,212	—	19,250
Mortgage-backed and other asset-backed securities	859,850	28,097	(7,541)	880,406
Debt securities issued by foreign governments	5,416	63	—	5,479
Securities classified as held-to-maturity	<u>\$1,451,692</u>	<u>\$72,572</u>	<u>\$(7,645)</u>	<u>\$1,516,619</u>

On March 31, 2003, Viad reclassified securities in the Payment Services portfolio with an amortized cost of \$1.2 billion from held-to-maturity to available-for-sale. During the first quarter 2003, management determined that it no longer had the positive intent to hold these securities for an indefinite period of time due to management's desire for increased flexibility in managing the investment portfolio. The gross unrealized gains and losses related to these securities were \$55.3 million and \$5.3 million, respectively, on the date of transfer. At June 30, 2003, no securities in the Payment Services portfolio were classified as held-to-maturity. As a result of the reclassification, the Company will be prohibited from classifying securities as held-to-maturity for two years following the transfer.

Current maturities of investments available or restricted for payment service obligations at June 30, 2003 and December 31, 2002 were \$129.5 million and \$69.4 million, respectively.

Gross realized gains on sales of securities classified as available-for-sale were \$3.3 million for both of the three month periods ended June 30, 2003 and 2002. Gross realized losses on sales of securities classified as available-for-sale were \$395,000 and \$1.2 million for the three months ended June 30, 2003 and 2002, respectively. For the six months ended June

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30, 2003 and 2002, gross realized gains were \$7.9 million and \$8.3 million, respectively, while gross realized losses were \$562,000 and \$2.6 million, respectively. Viad also recognized \$20.8 million and \$10.3 million in other-than-temporary impairments and adjustments for the six months ended June 30, 2003 and 2002, respectively. For the three months ended June 30, 2002, \$4.1 million of impairments were recognized. There were no impairments recorded during the second quarter 2003.

Note 6 – Goodwill and Other Intangible Assets

Upon adoption of SFAS 142, Viad completed the transitional impairment testing of its goodwill and intangible assets with indefinite lives. It was determined that no impairment existed for certain intangible assets but a transitional impairment loss of \$40.0 million (\$37.7 million after-tax) was recognized in the first quarter of 2002 upon the initial adoption of SFAS 142 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 is included in the Consolidated Statements of Income under “Change in accounting principle.”

As described in Note 4, “Acquisition of Minority Interest,” upon the acquisition of the minority interest of MIL by MoneyGram, an additional \$97.5 million of goodwill was recorded in the first quarter 2003 related to the Payment Services segment. The increase in goodwill from December 31, 2002 to June 30, 2003 of \$101.4 million was due to the \$97.5 million noted above and \$3.9 million of foreign currency translation adjustments.

Note 7 – Debt and Other Obligations

At both June 30, 2003 and December 31, 2002, Viad classified as long-term debt \$173 million of short-term borrowings. These borrowings are supported by unused commitments under \$393 million of long-term credit facilities. In June 2003, Viad repaid \$100 million related to the maturity of certain of its medium-term senior notes.

As of June 30, 2003, Viad had certain obligations under guarantees to third parties on behalf of its subsidiaries. These guarantees are not subject to liability recognition in the consolidated financial statements and primarily relate to leased facilities and credit or loan arrangements with banks, entered into by Viad’s subsidiary operations. Viad would generally be required to make payments to the respective third parties under these guarantees in the event that the related subsidiary could not meet its own payment obligations. The maximum potential amount of future payments that Viad would be required to make under all guarantees existing at June 30, 2003 is \$59.5 million. There are no recourse provisions that would enable Viad to recover from third parties any payments made under the guarantees. Furthermore, there are no collateral or similar arrangements whereby Viad could recover payments.

Cash paid for interest was \$6.9 million and \$8.7 million for the six months ended June 30, 2003 and 2002, respectively.

Note 8 – 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. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the change in the fair value of the derivative are recorded in accumulated other comprehensive income. Ineffective portions of the change in the fair value of cash flow hedges are recognized in earnings. For derivative instruments not designated as hedging instruments, changes in fair value are recognized in earnings in the current period.

A portion of Viad’s Payment Services business involves the payment of variable-rate commissions to financial institution customers of its PrimeLink 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 2006. The receivables, sold at a discount based on short-term variable interest rates, are sold in order to accelerate 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

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on commission expense and to a lesser extent on the net proceeds from the sale of agent receivables. The length of time over which future cash flows are hedged ranges up to ten years. Amounts receivable or payable under the derivative agreements designated as cash flow hedges 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 services."

Viad uses fair value hedges to mitigate the risk of fluctuating interest rates on certain available-for-sale securities. Interest rate swaps are used to modify exposure to interest rate risk by converting fixed rate assets to a floating rate. All amounts have been included in earnings consistent with the hedged transaction, primarily as "Payment services investment income." The Company uses the "shortcut" method prescribed by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), and therefore assumes no ineffectiveness. The amount recognized in earnings due to the ineffectiveness of the cash flow hedges was not material. No cash flow hedges or fair value hedges were discontinued during the six months ended June 30, 2003 or 2002.

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 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 9 – Income Taxes

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

	2003		2002	
		(in thousands)		
Computed income taxes at statutory federal income tax rate	\$ 29,801	35.0%	\$ 27,850	35.0%
State income taxes	3,251	3.8%	3,575	4.5%
Other, net	1,202	1.4%	2,247	2.9%
	<u>34,254</u>	<u>40.2%</u>	<u>33,672</u>	<u>42.4%</u>
Tax-exempt income	(10,322)	(12.1%)	(11,261)	(14.2%)
Adjustment to estimated annual effective rate (1)	(1,684)	(2.0%)	(950)	(1.2%)
	<u>\$ 22,248</u>	<u>26.1%</u>	<u>\$ 21,461</u>	<u>27.0%</u>

- (1) Accounting Principles Board Opinion No. 28 requires that income taxes be recorded based on the estimated effective tax rate expected to be applicable for the entire fiscal year.

Cash paid for income taxes was \$12.3 million and \$7.1 million for the six months ended June 30, 2003 and 2002, respectively.

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Note 10 – Income Per Share

A reconciliation of the numerators and denominators of diluted and basic per share computations for income before change in accounting principle is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	(in thousands, except per share data)			
Income before change in accounting principle	\$40,868	\$29,715	\$62,899	\$58,111
Preferred stock dividends	(286)	(285)	(572)	(570)
Income available to common stockholders	\$40,582	\$29,430	\$62,327	\$57,541
Average outstanding common shares	86,224	86,693	86,116	86,394
Additional dilutive shares related to stock-based compensation	284	979	302	806
Average outstanding and potentially dilutive common shares	86,508	87,672	86,418	87,200
Diluted income per share before change in accounting principle	\$ 0.47	\$ 0.34	\$ 0.72	\$ 0.66
Basic income per share before change in accounting principle	\$ 0.47	\$ 0.34	\$ 0.72	\$ 0.67

Options to purchase 3,549,000 and 1,057,000 shares of common stock were outstanding at June 30, 2003 and 2002, respectively, but were not included in the computation of diluted income per share because the effect would be antidilutive.

Note 11 – Restructuring Charges

In the fourth quarter of 2002, Viad approved a plan of restructuring related to the Convention and Event Services segment and recorded a charge totaling \$20.5 million. The charge consisted of costs associated with the closure and consolidation of certain facilities, severance and other employee benefits and included a provision for the write-down (net of estimated proceeds) of certain inventories and fixed assets, facility closure and lease termination costs (less estimated sublease income) and other exit costs. At June 30, 2003, there was a remaining liability of \$13.5 million, of which \$4.3 million and \$9.2 million were included in the Consolidated Balance Sheets under “Other current liabilities” and “Other deferred items and insurance liabilities,” respectively. Viad expects to complete the restructuring activities by December 31, 2003, however, payments due under the long-term lease obligations will continue to be made over the remaining terms of the lease agreements. Additionally, payments of severance and benefits will continue to be made over the varying terms of the individual separation agreements.

A summary of the change in the 2002 restructuring charge liability balance at June 30, 2003 is as follows:

	Severance and Benefits	Facility Closure and Lease Termination	Total
	(in thousands)		
Balance at December 31, 2002	\$2,911	\$12,814	\$15,725
Cash payments	(609)	(1,610)	(2,219)
Balance at June 30, 2003	\$2,302	\$11,204	\$13,506

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In the third quarter of 2001, Viad approved a plan of restructuring and recorded a charge totaling \$66.1 million, of which 93 percent related to the Convention and Event Services segment. The restructuring charge was associated with the closure and consolidation of certain facilities, severance and other employee benefits. All facilities were closed or consolidated and all positions eliminated as of December 31, 2002. At June 30, 2003, there was a remaining liability of \$16.1 million, of which \$3.1 million and \$13.0 million were included in the Consolidated Balance Sheets under "Other current liabilities" and "Other deferred items and insurance liabilities," respectively. Payments for severance and benefits as well as lease obligations will continue to be made over the varying terms of the individual separation agreements or remaining terms of the leases, respectively. In the second quarter 2003, \$1.3 million of the 2001 restructuring charge was reversed as certain costs originally anticipated in the restructuring plan will not be incurred. The reversal was included in the Consolidated Statements of Income under the caption "Restructuring recovery."

A summary of the change in the 2001 restructuring charge liability balance at June 30, 2003 is as follows:

	Severance and Benefits	Facility Closure and Lease Termination	Total
		(in thousands)	
Balance at December 31, 2002	\$ 882	\$18,750	\$19,632
Cash payments	(353)	(1,859)	(2,212)
Adjustment to facility closure liability	—	(1,276)	(1,276)
	<u>529</u>	<u>15,615</u>	<u>16,144</u>
Balance at June 30, 2003	\$ 529	\$15,615	\$16,144

Note 12 – Segment Information

Viad measures profit and performance of its operations on the basis of operating income before restructuring charges (recoveries) and other items. Effective in 2003, Viad discontinued using the fully taxable equivalent basis for reporting revenue and operating income results. Prior year periods have been adjusted to reflect this change. Intersegment sales are eliminated in consolidation and intersegment 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 as follows:

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	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	(in thousands)			
Revenues:				
Payment Services	\$203,640	\$191,822	\$392,651	\$372,667
Convention and Event Services	223,897	199,450	445,953	454,257
	<u>427,537</u>	<u>391,272</u>	<u>838,604</u>	<u>826,924</u>
Reportable segments				
Hospitality and Recreation Services	12,293	13,129	15,575	16,299
	<u>\$439,830</u>	<u>\$404,401</u>	<u>\$854,179</u>	<u>\$843,223</u>
Segment operating income:				
Payment Services	\$ 31,527	\$ 35,144	\$ 51,668	\$ 60,729
Convention and Event Services	25,200	14,410	43,805	36,654
	<u>56,727</u>	<u>49,554</u>	<u>95,473</u>	<u>97,383</u>
Reportable segments				
Hospitality and Recreation Services	2,790	2,907	1,216	1,404
	<u>59,517</u>	<u>52,461</u>	<u>96,689</u>	<u>98,787</u>
Corporate activities and minority interests	(2,956)	(7,291)	(6,701)	(11,851)
	<u>56,561</u>	<u>45,170</u>	<u>89,988</u>	<u>86,936</u>
Other investment income	865	1,351	1,969	2,643
Interest expense	(3,934)	(4,926)	(8,086)	(10,007)
Restructuring recovery	1,276	—	1,276	—
	<u>Income before income taxes and change in accounting principle</u>	<u>\$ 54,768</u>	<u>\$ 85,147</u>	<u>\$ 79,572</u>

Note 13 – Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (EITF 00-21), effective for Viad for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Viad’s Convention and Event Services segment derives revenues primarily by providing show services to vendors at conventions and from the design and construction of exhibit booths. Exhibit design and construction revenue is generally accounted for using the completed contract method as contracts are typically completed within three months of contract signing. In certain circumstances, the application of EITF 00-21 may require that design services and exhibit booth construction be treated as separate units of accounting and that contract consideration be allocated to each unit. The revenue associated with these multiple deliverables would be recognized when the general conditions for revenue recognition have been met with respect to each unit of accounting. The adoption of EITF 00-21 is not expected to have a material impact on Viad’s financial position or results of operations.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (FIN 45). This interpretation sets forth expanded disclosure requirements in the financial statements about a guarantor’s obligations under certain guarantees that it has issued. It also clarifies that, under certain circumstances, a guarantor is required to recognize a liability for the fair value of the obligation at the inception of the guarantee. Certain types of guarantees, such as product warranties, guarantees accounted for as derivatives, and guarantees related to parent-subsidiary relationships are excluded from the liability recognition provisions of FIN 45, however, they are subject to the disclosure requirements. The initial liability recognition provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements for interim or annual periods ending after December 15, 2002. Viad’s guarantees principally relate to a parent’s guarantee of a subsidiary’s debt to a third party

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and would, therefore, be excluded from liability recognition at inception. The adoption of FIN 45 did not have a material impact on Viad's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 prescribes how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. FIN 46 is effective immediately for variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The interpretation applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. Viad's Payment Services segment has certain investments in collateralized debt obligations in the form of structured notes. Under current accounting principles, Viad consolidates certain of these structured notes to the extent that it owns a majority of the beneficial interests in the grantor trust that was formed to create the structured note. Prior to the adoption of FIN 46, Viad changed the structure of two of its investments in collateralized debt obligations which would have otherwise required consolidation of the underlying asset securitization under the new rules. The adoption of FIN 46 is not expected to have a material impact on Viad's financial condition or results of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 is effective for Viad for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133. The adoption of SFAS 149 is not expected to have a material impact on Viad's financial position or results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS 150). SFAS 150 is effective for Viad for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The new rules establish standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that financial instruments within its scope be classified as liabilities. At June 30, 2003, Viad had 234,983 shares of \$4.75 redeemable preferred stock outstanding at a recorded amount of \$6.7 million. The \$4.75 redeemable preferred stock is subject to mandatory redemption provisions through annual cumulative sinking fund requirements. The outstanding shares are scheduled for redemption in the years 2019 to 2058. Viad adopted SFAS 150 on July 1, 2003, and accordingly, will classify the \$4.75 redeemable preferred stock (\$6.7 million) as a long-term liability in the consolidated financial statements. In addition, all future dividend payments on the \$4.75 redeemable preferred stock will be recorded as interest expense in the Consolidated Statements of Income.

Note 14 – Subsequent Event

On July 24, 2003, Viad announced that it intends to pursue the tax-free spin-off of its Payment Services business. The spin-off would result in two separate publicly-traded entities. The transaction would be subject to a number of conditions, including, among other things, receipt of a satisfactory ruling from the Internal Revenue Service, confirmation that the long-term debt of the Payment Services business would have an investment grade rating, availability of satisfactory banking and credit arrangements for each of the businesses, and final approval of the Board of Directors of Viad. Viad filed for the Internal Revenue Service ruling on August 5, 2003. The transaction is not expected to be consummated earlier than the first quarter of 2004, and no assurances can be given that any such transaction will be consummated.

As a result of the announcement on July 24, 2003 of Viad's intention to spin-off its Payment Services business, the major ratings agencies put Viad on credit watch with negative implications as it is probable that the existing debt of Viad will not be rated investment grade following the separation of the Payment Services business. Viad plans to tender for all of its publicly held debt, repay its commercial paper and redeem all of its outstanding \$4.75 redeemable preferred stock concurrent with the spin-off transaction.

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

Overview:

Viad Corp (Viad) operates in two business segments as follows:

Payment Services – through Travelers Express Company, Inc. and related subsidiaries (Travelers Express), revenues are derived from transaction fees and investment and related income by providing various services related to money orders, official checks, money transfers, same-day bill payment and cash access services. Fee revenues are driven by transaction volume and contract pricing through a network of agents and customers, including financial institutions. Investment and related income is generated through a float portfolio of investments.

Convention and Event Services – through GES Exposition Services, Inc. (GES), revenues are generated from providing various convention and tradeshow services such as transportation, freight handling, installation, dismantling and management services to trade associations, show management companies and exhibitors. Exhibitgroup/Giltspur (Exhibitgroup) specializes in the design, construction, installation and warehousing of convention and tradeshow exhibits, primarily for corporate customers.

Viad also operates certain travel and recreation businesses.

On July 24, 2003, Viad announced that it intends to pursue the tax-free spin-off of its Payment Services business. The spin-off would result in two separate publicly-traded entities. The transaction would be subject to a number of conditions, including, among other things, receipt of a satisfactory ruling from the Internal Revenue Service, confirmation that the long-term debt of Travelers Express would have an investment grade rating, availability of satisfactory banking and credit arrangements for each of the businesses, and final approval of the Board of Directors of Viad. Viad filed for the Internal Revenue Service ruling on August 5, 2003. In addition, Viad plans to tender for all of its publicly held debt, repay its commercial paper and redeem all of its outstanding \$4.75 redeemable preferred stock concurrent with the spin-off transaction. The transaction is not expected to be consummated earlier than the first quarter of 2004, and no assurances can be given that any such transaction will be consummated.

As discussed in Note 2, the consolidated financial statements for the three and six months ended June 30, 2002 have been restated. The accompanying "Management's Discussion and Analysis of Results of Operations and Financial Condition" gives effect to the restatement.

In January 2003, Payment Services completed the acquisition of the remaining minority interest of an international money transfer business for \$98.0 million in cash and a dividend of \$8.1 million.

Financial Highlights:

The following are financial highlights of the second quarter 2003 as compared to the second quarter 2002 (except as noted):

Viad Corp (Consolidated)

- Total revenues of \$439.8 million, an increase of 8.8%
- Net income of \$40.9 million versus \$29.7 million, an increase of 37.5%
- Net income per share of \$0.47 versus \$0.34
- EBITDA of \$71.3 million, an increase of 20.6%
- Cash and corporate investments decreased \$182 million to \$122 million from the fourth quarter 2002
- Debt decreased \$100 million to \$262 million from the fourth quarter 2002

Results of Operations:

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

Comparison of Second Quarter of 2003 to the Second Quarter of 2002

In the second quarter 2003, revenues increased 8.8 percent to \$439.8 million from \$404.4 million in the 2002 second quarter due to growth in the MoneyGram business in the Payment Services segment and positive show rotation in the Convention and Event Services segment. Payment Services investment income (including gains, losses and impairments) was flat due to lower investment yields despite higher average investable balances. Income before income taxes and change in accounting principle was \$54.8 million for the 2003 second quarter compared with \$41.6 million for the 2002 second quarter (up 31.7 percent). The increase was driven by the Convention and Event Services segment due to the effect of higher revenue and continued cost controls, dampened by the effect of lower interest rates on float income in the Payment Services segment. Additionally, lower corporate expenses and the \$1.3 million reversal of the 2001 Convention and Event Services segment restructuring accrual contributed to the improvement.

Net income for the second quarter 2003 was \$40.9 million, or \$0.47 per share, compared to \$29.7 million, or \$0.34 per share, for the second quarter 2002.

Payment Services. Revenues of the Payment Services segment were \$203.6 million for the second quarter 2003, a 6.2 percent increase from second quarter 2002 revenues of \$191.8 million. Segment operating income decreased 10.3 percent to \$31.5 million from the second quarter 2002 amount of \$35.1 million. Operating margins decreased to 15.5 percent in the second quarter 2003 compared with 18.3 percent in the second quarter 2002. Included in the second quarter 2002 operating results are \$4.1 million of other-than-temporary impairment charges and other adjustments associated with certain structured notes held in the float portfolio. There were no such charges or adjustments in the second quarter 2003.

The overall increase in Payment Services revenues for the quarter was due to the continued growth of MoneyGram. MoneyGram continued to show strong results with transaction volume growing 30 percent, led by international money transfer and same-day bill payment volume. Internationally originated transactions grew by 33 percent and domestically originated transactions, including the same-day bill product, grew by 35 percent. In addition, MoneyGram's agent base expanded by 8 percent over the second quarter 2002. The decline in segment operating income and margin was driven primarily by lower interest rates on the float portfolio.

The money order business continues to contribute significantly to operating margin and cash flow. However, money order volume declined 8 percent and the related average investable balances were also lower. Contributing to the decline were the loss of certain agents in the chain segment partially offset by strong growth in money order sales at Wal-Mart.

Total average investable funds for the second quarter 2003 were \$7.1 billion, up 25 percent from 2002 levels, primarily driven by the official check business (now branded as PrimeLink) which had an increase of average investable balances of 34 percent. Although PrimeLink was not a strong driver of revenue and segment operating income due to lower interest rates, it continued to show growth in balances and new signings. Total float income (investment income from the investment portfolio) represented 42 percent of total Payment Services revenue in the second quarter 2003 compared with 44 percent for 2002. Float income is affected by the level of investment balances and the yield on investments.

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Float income (excluding gains, losses and impairments) and expense associated with the Payment Services segment's investment portfolio for the three months ended June 30 was as follows:

	2003			2002		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
	(in thousands)					
Investments available or restricted for payment service obligations (1)	\$7,142,154	\$82,017	4.61%	\$5,728,179	\$85,733	6.00%
Payment service obligations (2)	\$5,792,583	60,802	4.21%	\$4,290,814	58,088	5.43%
Net float income and margin		\$21,215	1.19%		\$27,645	1.94%

- (1) Payment services investment income of \$84.9 million for the three months ended June 30, 2003 is comprised of \$82.0 million of income from investments available or restricted for payment service obligations and realized gains and losses of \$2.9 million. For the same period in 2002, Payment services investment income of \$84.5 million is comprised of \$85.7 million of income from investments available or restricted for payment service obligations, realized gains and losses of \$2.1 million less impairment charges of \$3.3 million.
- (2) Commissions are paid to financial institution customers based upon average outstanding balances generated by the sale of PrimeLink products only. The expense reported includes those payments made to financial institution customers, costs associated with swaps and the sale of receivables program. The average balance in the table reflects only the payment service obligations for which commissions are paid and does not include the average balance of the sold receivables (\$433 million and \$442 million for second quarter 2003 and 2002, respectively) as these are not recorded on the Consolidated Balance Sheets. Commission expense is classified as "Costs of services" in the Consolidated Statements of Income.

Float income was \$82.0 million in the second quarter 2003 compared to \$85.7 million in 2002, a decrease of 4.3 percent. The decline was primarily due to lower interest rates on the float portfolio balances. The float income increase attributable to the balance growth was \$21.2 million and was offset by a decrease of \$24.9 million due to the continued decline of interest rates, reflecting an average investment yield of 4.61 percent, or a 139 basis point decline from 6.00 percent in 2002. During the same period, short-term interest rates declined by 50 basis points and the 5-year U.S. Treasury note declined 175 basis points.

The Payment Services segment typically maintains between \$400 million and \$750 million in short-term, liquid balances in order to fulfill its payment service obligations. The average balance for the second quarter 2003 was \$750 million compared to \$324 million for the same period in 2002. With interest rates declining in the second quarter 2003 to their lowest levels in 50 years, mortgage refinancing activity reached its highest point ever prompting a significant increase in the sale of official checks resulting in higher average float balances. These higher balances were reinvested at the lower rates. The refinancing activity also drove a significant increase in the prepayments of mortgage-backed debt securities, resulting in the reinvestment of these funds at lower interest rates as well. If significant mortgage refinancing activity continues, future results could be affected similarly.

Commission expense was \$60.8 million in the second quarter 2003, an increase of \$2.7 million, or 4.7 percent from 2002, primarily due to higher average balances of over \$1.5 billion. The commission expense increase attributable to the higher average balances was \$20.3 million and was partially offset by a decrease of \$17.6 million due to lower interest rates, reflecting an average commission rate of 4.21 percent in the second quarter 2003, or a 122 basis point decline from 5.43 percent in 2002. Commission expense includes amounts paid to financial institution customers based upon average outstanding balances generated by the sale of PrimeLink products as well as the discount on the sale of receivables. Commissions paid to customers generally are variable based on short-term interest rates, however, a portion of the commission expense has been fixed through the use of interest rate swap

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agreements.

Net float income (float income less commission expense) was \$21.2 million in the second quarter 2003, down \$6.4 million or 23.3 percent from 2002, primarily due to lower interest rates on the float portfolio balances. The net float income increase due to balance growth was \$6.8 million and was offset by a decrease of \$13.2 million due to a decline in the float rate reflecting a net float margin of 1.19 percent, or a 75 basis point decline from 1.94 percent in 2002. As mentioned above, refinancing activities caused an increase in the sale of official checks and, therefore, 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, thus reducing net float margin. Although commissions and the discount on the sale of receivables program benefited from lower short-term interest rates, the fixed rate derivatives mitigated the benefits of reduced interest rates. Operating income and margins were negatively impacted as the pay-fixed interest rate swaps used to hedge variable rate commissions to official check banks matured at a slower rate than investments in mortgage-backed securities that are prepaying more rapidly than expected. Approximately \$845 million (notional amount) of interest rate swaps will mature over the remainder of 2003 and through the first quarter 2004. Also contributing to the margin decline was a change in product mix reflecting higher overall growth in the PrimeLink business, which has lower net float margins than the balances generated by the money order business.

The impact of changes in average investable balances and interest rates on the float income and commission expense associated with the investment portfolio for the three months ended June 30 is as follows:

	2003			2002		
	Balance (1)	Yield/ Rate (1)	Total	Balance (1)	Yield/ Rate (1)	Total
	(in thousands)					
Float income	\$21,163	\$(24,879)	\$(3,716)	\$13,507	\$(2,132)	\$11,375
Commission expense	\$20,331	\$(17,617)	\$ 2,714	\$14,324	\$(7,865)	\$ 6,459
Net float income	\$ 6,819	\$(13,249)	\$(6,430)	\$ 4,129	\$ 787	\$ 4,916

- (1) Net float income for the “balance” and “yield/rate” columns is not the net of “float income” and “commission expense” as each of these amounts is calculated independently.

The fair value of Viad’s derivative positions fluctuate with interest rate changes. These changes are 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 or decreases to a component of stockholders’ equity. The change in the fair value of the derivative liability for the second quarter 2003 was a net increase of \$6.8 million in stockholders’ equity, and the net change in the fair value of the available-for-sale investment portfolio was a net increase of \$15.2 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 exactly.

Convention and Event Services. Revenues of the Convention and Event Services segment were \$223.9 million in the second quarter 2003, an increase of 12.3 percent from second quarter 2002 revenues of \$199.5 million. Segment operating income was \$25.2 million in the second quarter 2003 compared to \$14.4 million in the second quarter 2002, up 74.9 percent. Operating margins increased to 11.3 percent compared with 7.2 percent in the second quarter 2002.

The convention show services business experienced a 13.1 percent increase in revenues in the second quarter 2003. Revenues were \$161.5 million in the second quarter 2003 compared to \$142.8 million in 2002. The increase in revenues largely reflects favorable show rotation during the quarter and slightly increased demand for tradeshow services. The favorable show rotation primarily related to the International Plastics Show which is one of the largest

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tradeshows in the world and occurs every third year. Although the convention show services business has a diversified revenue base (show portfolio) and demand for services increased during the second quarter 2003, revenue growth is dependent on general economic and industry-specific conditions. There continues to be weakness in the number of shows held and the size of existing shows, particularly in the technology industry. Furthermore, threats of terrorism could continue to impact travel and adversely affect the tradeshow industry.

Within the Convention and Event Services segment, the exhibit design and construction business experienced a 10.1 percent increase in revenues in the second quarter 2003 compared with 2002. Exhibit design and construction revenues were \$62.4 million in the second quarter 2003 compared to \$56.7 million in 2002. Revenues were positively impacted by the strength of the second quarter shows and positive show rotation including the International Plastics Show discussed above and the Paris Air Show. However, the overall demand for new exhibit construction remains weak reflecting continued low levels of corporate spending.

Segment operating income performance improved during the second quarter 2003 primarily due to increased revenues and continued cost reductions and efficiencies including those realized in connection with the fourth quarter 2002 restructuring plan. The restructuring plan is expected to result in cost savings in the range of \$8 million to \$9 million in 2003. Approximately \$2 million of cost savings from the restructuring were realized in the second quarter 2003.

In the 2001 third quarter, Viad recorded restructuring charges totaling \$66.1 million consisting of costs associated with the closure and consolidation of certain facilities, severance and other employee benefits in the Convention and Event Services segment. In the 2003 second quarter, \$1.3 million of the accrued liability was reversed as certain costs originally anticipated in the restructuring plan will not be incurred.

Travel and Recreation Services. Revenues of the travel and recreation businesses were \$12.3 million, a decrease of 6.4 percent from \$13.1 million in the second quarter 2002. Operating income was \$2.8 million for the second quarter 2003, compared with \$2.9 million in 2002. The results of the travel and recreation industry have been impacted by the political instability in the Middle East, the SARS health issue and threats of terrorism which have influenced a shift in destination preferences away from these businesses. These factors, as well as increasing competition in destination pricing, may continue to negatively impact future bookings. In addition, wildfires in and around Glacier National Park may have a negative impact on operating results for the third quarter 2003.

Corporate Activities and Minority Interests. Corporate activities decreased \$3.4 million primarily due to the \$2.3 million in legal, investment banking and other costs incurred in the second quarter 2002 in connection with the 2002 proposed initial public offering of Travelers Express. Minority interests decreased \$972,000 in the second quarter of 2003 due to the Payment Services segment's acquisition of the remaining 49 percent minority interest in MoneyGram International Limited (MIL) in the first quarter 2003.

Net Interest Expense. The decrease in net interest expense to \$3.1 million in the second quarter 2003 from \$3.6 million in the second quarter 2002 was a result of lower outstanding debt balances and declining average interest rates.

Income Taxes. The effective tax rate in the 2003 second quarter was 25.4 percent compared to 28.6 percent for the second quarter 2002. The relatively low effective tax rate compared to the statutory federal rate was primarily attributable to tax-exempt income from Viad's Payment Services businesses. The decrease in the effective tax rate quarter-over-quarter resulted from level amounts of tax-exempt income in proportion to lower taxable income in 2003 as compared to 2002.

Comparison of First Six Months of 2003 to the First Six Months of 2002

Revenues for the first six months of 2003 increased 1.3 percent to \$854.2 million from \$843.2 million in 2002. Revenue growth was primarily driven by increased MoneyGram transaction volume. This growth was partially offset by decreased investment income due to overall lower interest rates and other-than-temporary impairment charges and other adjustments related to structured note securities totaling \$20.8 million (as compared to similar charges of \$10.3 million in the first six months of 2002) in the Payment Services segment. Revenue growth was also impacted by a decline in exhibit design and construction revenues period over period. Income before income taxes and change in accounting principle was \$85.1 million for the first six months of 2003 compared with \$79.6 million for the first six months of 2002 (up 7.0 percent). The increase was primarily driven by the impact of cost reductions and margin improvements in the Convention and Event Services segment. In addition, lower corporate expenses and interest expense as well as the \$1.3 million reversal of a portion of the 2001 Convention and Event Services segment restructuring accrual contributed to the increase. This increase was partially offset by the other-than-temporary impairment charges mentioned above. See Note 12 of Notes to Consolidated Financial Statements for segment information.

Net income for the first six months of 2003 was \$62.9 million, or \$0.72 per share, compared to \$20.4 million, or \$0.23 per share, for the first six months of 2002. Income before change in accounting principle for the first six months of 2002 was \$58.1 million, or \$0.66 per share (with a 2003 increase of 8.2 percent on a per share basis).

Payment Services. Revenues of the Payment Services segment were \$392.7 million for the first six months of 2003, a 5.4 percent increase from comparable 2002 revenues of \$372.7 million. Segment operating income decreased to \$51.7 million, or 14.9 percent, from the first six months of 2002 of \$60.7 million. Operating margins decreased to 13.2 percent for the first six months of 2003 compared with 16.3 percent for the first six months of 2002.

The segment operating income and margin decline was driven by other-than-temporary impairment charges and other adjustments of \$20.8 million as compared to \$10.3 million in the same period of 2002. These charges related to certain structured notes held in the float portfolio. In addition, the decline in segment operating income and margin was significantly impacted by lower interest rates on the float portfolio.

Aside from the above charge, operating income was driven by continued growth in the MoneyGram business. MoneyGram continued to show strong results with transaction volume growing 32 percent, led by strong international money transfer and same-day bill payment volume. Internationally originated transactions grew by 40 percent and domestically originated transactions, including the same-day bill product, grew by 37 percent. In January 2003, Payment Services acquired the minority interest in MoneyGram International Limited (MIL) which provides money transfer services primarily in Europe, Africa, Asia and Australia.

The money order business continues to contribute significantly to operating margin and cash flows. However, money order volume was down 7 percent compared to 2002 due to the loss of certain agents partially offset by strong growth in sales at Wal-Mart.

Factors which could impact Payment Services' revenue and segment operating income include a tightening credit environment, which slows new agent signings, and could also necessitate the elimination of certain agents. Additionally, competitive pricing pressures could negatively impact the MoneyGram domestic business.

Total average investable funds for the first six months of 2003 were \$6.9 billion, up 21 percent from 2002 levels, primarily driven by the PrimeLink business which had an increase of average investable balances of 28 percent. Although PrimeLink was not a strong driver of revenue and operating income due to the impairment charges and lower interest rates, it continued to show growth in balances and new signings. Total float income (investment income from the investment portfolio) represented 41 percent of total Payment Services revenue for the first six months of 2003 compared with 45 percent for 2002. Float income is affected by the level of investment balances and the yield on investments.

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Float income (excluding gains, losses and impairments) and expense associated with the Payment Services segment's investment portfolio for the six months ended June 30 was as follows:

	2003			2002		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
	(in thousands)					
Investments available or restricted for payment service obligations (1)	\$6,940,122	\$168,656	4.90%	\$5,744,726	\$170,615	5.99%
Payment service obligations (2)	\$5,568,136	119,728	4.34%	\$4,295,832	113,695	5.34%
Net float income and margin		\$ 48,928	1.42%		\$ 56,920	2.00%

- (1) Payment services investment income of \$159.5 million for the six months ended June 30, 2003 is comprised of \$168.7 million of income from investments available or restricted for payment service obligations, realized gains and losses of \$7.3 million less impairment charges of \$16.5 million. For the same period in 2002, Payment services investment income of \$167.0 million is comprised of \$170.6 million of income from investments available or restricted for payment service obligations, realized gains and losses of \$5.7 million less impairment charges of \$9.3 million.
- (2) Commissions are paid to financial institution customers based upon average outstanding balances generated by the sale of PrimeLink products only. The expense reported includes those payments made to financial institution customers, costs associated with swaps and the sale of receivables program. The average balance in the table reflects only the payment service obligations for which commissions are paid and does not include the average balance of the sold receivables (\$437 million and \$444 million for first six months of 2003 and 2002, respectively) as these are not recorded on the Consolidated Balance Sheets. Commission expense is classified as "Costs of services" in the Consolidated Statements of Income.

Float income was \$168.7 million for the first six months of 2003 compared to \$170.6 million in 2002. The float income increase attributable to the balance growth was \$35.5 million and was offset by a decrease of \$37.5 million due to declining interest rates, reflecting an average investment yield of 4.90 percent, or a 109 basis point decline from 5.99 percent in 2002. During the same period, short-term interest rates declined by 49 basis points and the 5-year U.S. Treasury note declined 171 basis points.

The Payment Services segment typically maintains between \$400 million and \$750 million in short-term, liquid balances in order to fulfill its payment service obligations. The average balance for the first six months of 2003 was \$618 million compared to \$399 million for 2002. With interest rates declining in the second quarter 2003 to their lowest levels in 50 years, mortgage refinancing activity reached its highest point ever prompting a significant increase in the sale of official checks resulting in higher float balances. These higher balances were reinvested at the lower rates. The refinancing activity also drove a significant increase in the prepayments of mortgage-backed debt securities, resulting in the reinvestment of these funds at lower interest rates as well. If the unprecedented mortgage refinancing activity continues, future results could be affected similarly.

Commission expense was \$119.7 million for the first six months of 2003, an increase of \$6.0 million, or 5.3 percent from 2002, primarily due to higher average balances of over \$1.3 billion. The commission expense increase attributable to the higher average balances was \$33.7 million and was partially offset by a decrease of \$27.6 million due to lower interest rates, reflecting an average commission rate of 4.34 percent for the first six months of 2003, or a 100 basis point decline from 5.34 percent in 2002. Commission expense includes amounts paid to financial institution customers based upon average outstanding balances generated by the sale of PrimeLink products as well as the discount on the sale of receivables. Commissions paid to customers generally are variable based on short-term interest rates, however, a portion of the commission expense has been fixed through the use of interest rate swap

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agreements.

Net float income (float income less commission expense) was \$48.9 million for the first six months of 2003, down \$8.0 million or 14.0 percent from 2002, primarily due to lower interest rates. The net float income increase due to balance growth was \$11.8 million and was offset by a decrease of \$19.8 million due to a decline in the float rate reflecting a net float margin of 1.42 percent, or a 58 basis point decline from 2.00 percent in 2002. As mentioned above, refinancing activities caused an increase in the sale of official checks and, therefore, 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, thus reducing net float margin. Although commissions and the discount on the sale of receivables program benefited from lower short-term interest rates, the fixed rate derivatives mitigated the benefits of reduced interest rates. Operating income and margins were negatively impacted as the pay-fixed interest rate swaps used to hedge variable rate commissions to official check banks matured at a slower rate than investments in mortgage-backed securities that are prepaying more rapidly than expected. Approximately \$845 million (notional amount) of interest rate swaps will mature over the remainder of 2003 and through the first quarter 2004. Also contributing to the margin decline was a change in product mix reflecting higher overall growth in the PrimeLink business, which has lower net float margins than the balances generated by the money order business. If interest rates remain low and refinancing activity continues to be strong, revenue and operating income growth could continue to be constrained.

The impact of changes in average investable balances and interest rates on the float income and commission expense associated with the investment portfolio for the six months ended June 30 is as follows:

	2003			2002		
	Balance (1)	Yield/ Rate (1)	Total	Balance (1)	Yield/ Rate (1)	Total
	(in thousands)					
Float income	\$35,503	\$(37,462)	\$(1,959)	\$35,877	\$ (9,135)	\$26,742
Commission expense	\$33,673	\$(27,640)	\$ 6,033	\$39,775	\$(26,429)	\$13,346
Net float income	\$11,844	\$(19,836)	\$(7,992)	\$10,853	\$ 2,543	\$13,396

(1) Net float income for the “balance” and “yield/rate” columns is not the net of “float income” and “commission expense” as each of these amounts is calculated independently.

The fair value of Viad’s derivative positions fluctuate with interest rate changes. These changes are 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 or decreases to a component of stockholders’ equity. The change in the fair value of the derivative liability for the first six months of 2003 was a net increase of \$12.0 million in stockholders’ equity, and the net change in the fair value of the available-for-sale investment portfolio was a net increase of \$39.6 million in stockholders’ equity. Of this change, \$30.2 million related to the transfer of \$1.2 billion in investments from held-to-maturity to available-for-sale. 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 exactly.

Convention and Event Services. Revenues of the Convention and Event Services segment were \$446.0 million for the first six months of 2003, a decrease of 1.8 percent from the revenues for the first six months of 2002 of \$454.3 million. Segment operating income was \$43.8 million in the first six months of 2003 compared to \$36.7 million in the first six months of 2002, up 19.5 percent. Operating margins increased to 9.8 percent compared with 8.1 percent in the first six months of 2002.

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Revenues in the convention show services business for the first six months of 2003 were \$336.5 million, flat relative to 2002. There continues to be weakness in the number of shows held and the size of existing shows, particularly in the technology industry. Although the convention show services business has a diversified revenue base (show portfolio), revenue growth is dependent on general economic and industry-specific conditions. Furthermore, threats of terrorism could continue to impact travel and adversely affect the tradeshow industry. Viad expects that the demand for convention and event services in the third quarter of 2003 will decline due to negative show rotation resulting in lower revenues and segment operating income relative to the same period of 2002.

Within the Convention and Event Services segment, the exhibit design and construction business experienced a 7.3 percent decrease in revenues in the first six months of 2003 compared with 2002. Exhibit design and construction revenues were \$109.5 million for the first six months of 2003 compared to \$118.1 million in 2002. Revenues were reduced by weaker demand for the design and construction of new exhibits. Many exhibitors elected to reuse existing exhibits rather than place new orders. Revenues for refurbishment were also lower because many customers have elected to scale down the level of upgrades to existing exhibit booths. Future revenues and segment operating income could be lessened if there is continued weakness in corporate spending for exhibit construction, despite management's implementation of a restructuring plan to reduce costs.

Segment operating income performance improved during the first six months of 2003. Cost reductions and efficiencies improved, reflecting the implementation of restructuring plans and centralization activities. In the fourth quarter 2002, Viad recorded a restructuring charge of \$20.5 million related to the Convention and Event Services segment. Viad expects that the restructuring plan will result in cost savings in the range of \$8 million to \$9 million in 2003 based on the timing of activities pursuant to the restructuring plan. Approximately \$3 million of cost savings from the restructuring were realized in the first six months of 2003.

In the 2001 third quarter, Viad recorded restructuring charges totaling \$66.1 million consisting of costs associated with the closure and consolidation of certain facilities, severance and other employee benefits in the Convention and Event Services segment. In the first six months of 2003, \$1.3 million of the accrued liability was reversed as certain costs originally anticipated in the restructuring plan will not be incurred.

Travel and Recreation Services. Revenues of the travel and recreation businesses were \$15.6 million, a decrease of 4.4 percent from \$16.3 million in the first six months of 2002. Operating income was \$1.2 million for the first six months of 2003, compared with \$1.4 million for the first six months of 2002. Political instability in the Middle East, the SARS health issue and threats of terrorism have negatively impacted the travel and recreation industry. These factors, as well as wildfires in and around Glacier National Park, may have a negative impact on the operating results for the third quarter 2003.

Corporate Activities and Minority Interests. Corporate activities decreased \$3.7 million primarily due to the \$2.3 million in legal, investment banking and other costs incurred in second quarter 2002 in connection with the 2002 proposed initial public offering of Travelers Express. Minority interests decreased \$1.5 million in the first six months of 2003 due to the Payment Services segment's acquisition of the remaining 49 percent minority interest in MIL.

Net Interest Expense. The decrease in net interest expense to \$6.1 million in the first six months of 2003 from \$7.4 million in the first six months of 2002 was a result of lower outstanding debt balances and declining average interest rates.

Income Taxes. The effective tax rate for the first six months of 2003 was 26.1 percent compared to 27.0 percent for the comparable 2002 period. The relatively low effective tax rate compared to the statutory federal rate was primarily attributable to tax-exempt income from Viad's Payment Services businesses. The decrease in the effective tax rate period over period resulted from level amounts of tax-exempt income in proportion to lower taxable income in 2003 as compared to 2002.

Liquidity and Capital Resources:

Cash and corporate investments were \$121.6 million at June 30, 2003 as compared to \$303.6 million at December 31, 2002, with the decrease primarily related to the repayment of \$100 million of medium-term debt and a capital contribution to a Payment Services subsidiary to acquire the minority interest share of MIL, both described below. Corporate investments are included in the Consolidated Balance Sheets under "Other investments in securities."

In June 2003, Viad repaid \$100 million related to the maturity of certain of its medium-term senior notes. Viad's total debt at June 30, 2003 was \$261.6 million compared with \$361.7 million at December 31, 2002. The debt-to-capital ratio was 0.24 to 1 at June 30, 2003, compared with 0.34 to 1 at December 31, 2002. Capital is defined as total debt plus minority interests, preferred stock, common stock and other equity.

In January 2003, MoneyGram Payment Systems, Inc. (MoneyGram), a subsidiary of Travelers Express, acquired the 49 percent minority interest in MIL from Travelex Group (Travelex). MIL, a London-based joint venture between MoneyGram and Travelex, provides international money transfer services primarily in Europe, Africa, Asia and Australia. Prior to the acquisition, MoneyGram owned a 51 percent interest in MIL. In connection with the transaction, MoneyGram paid \$98.0 million to Travelex. In addition, MIL paid a dividend to Travelex of \$8.1 million concurrent with the transaction.

Viad satisfies a portion of its working capital and other financing requirements with short-term borrowings (through commercial paper, bank note programs and bank lines of credit). Viad has credit facilities to support short-term borrowings. Under these facilities, short-term borrowings were supported by a \$168 million short-term 364-day revolving credit facility (with a one-year term out provision, at Viad's option, in the event a new facility is not established) and a \$225 million five-year facility. The short-term revolving credit facility allows for Viad to increase the aggregate amount of the lender commitments up to \$200 million subject to availability of commitments. Short-term borrowings totaling \$173.0 million at June 30, 2003 and December 31, 2002, have been classified as long-term debt, pursuant to the unused commitments under the applicable long-term and short-term credit facilities. Unused commitments (net of amounts used to support short-term borrowings and letters of credit) under the facilities totaled \$142.9 million at June 30, 2003. Borrowings under the facilities are subject to various covenants, including standard equity and other financial ratio calculations, among others. The borrowings are also subject to increases in borrowing costs if debt ratings are not maintained at current levels. Default under the covenants relating to any of Viad's debt agreements could result in cross defaults to other debt agreements.

As a result of the announcement on July 24, 2003 of Viad's intention to spin-off Travelers Express, the major ratings agencies put Viad on credit watch with negative implications as it is probable that the existing debt of Viad will not be rated investment grade following the separation of Travelers Express. Viad has announced that it will tender for all public debt, pay off all commercial paper and redeem its preferred stock concurrent with a spin-off transaction. Because the commercial paper market is ratings driven, regardless of the reason for the credit watch, this action may result in increased borrowing costs for Viad in the future.

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

Off-Balance-Sheet Arrangements:

Viad has certain arrangements and transactions which are not recorded on the Consolidated Balance Sheets and could materially effect liquidity or require the use of capital resources. As of June 30, 2003, these arrangements include aggregate operating lease commitments of \$175.7 million, aggregate guarantees of \$59.5 million (representing parent guarantees of subsidiary debt) and funding commitments related to collateralized private equity obligations of \$19.0 million.

The Payment Services segment has an agreement to sell, on a periodic basis, undivided percentage ownership interests in certain receivables primarily from its money order agents in the amount not to exceed \$450 million. These receivables are sold to commercial paper conduits and represent a small percentage of the total assets in such conduits. Viad's rights and obligations are limited to the receivables transferred, and are accounted for as a sales transaction under Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The assets and liabilities associated with the conduits, including the sold receivables, are not recorded or consolidated in Viad's financial statements. The agreement expires in June 2006.

Critical Accounting Policies and Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and related notes. These estimates and assumptions are evaluated on an ongoing basis and are based upon many factors including historical experience, economic trends and management judgment. Actual results could differ from these estimates and reported amounts could be materially affected if different assumptions or conditions were to prevail.

Viad's critical accounting policies and estimates are defined as those that are most important to the portrayal of Viad's results of operations and financial condition, and that require management to make its most difficult, complex or subjective judgements, often as a result of the need to make estimates of matters that are inherently uncertain. These critical accounting policies and estimates are discussed in "Management's Discussion and Analysis of Results of Operations and Financial Condition" in Viad's Annual Report on Form 10-K/A for the year ended December 31, 2002.

Viad's investments consist primarily of mortgage-backed securities, other asset-backed securities, state and municipal government obligations and corporate debt securities. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. Viad employs a methodology that considers available evidence in evaluating potential impairment of its investments including the duration and extent to which the fair value is less than book value; Viad's ability and intent to hold the investment; the security rating; the underlying collateral and other factors that influence projected future cash flows. When an other-than-temporary impairment occurs, investments are written down to fair value. Subsequent increases in value are treated as an adjustment of yield.

As discussed elsewhere in this quarterly report for the six months ended June 30, 2003, Viad recorded other-than-temporary impairment losses and adjustments of \$20.8 million related to certain structured notes held in its Payment Services investment portfolio during the period. The impact of changes in cash flow projections and the related default and recovery rate assumptions on certain structured notes and collateralized debt obligations (CDO equity) could result in additional impairment. Furthermore, adverse changes in actual or projected cash flows on other investments could result in impairment losses to the extent that the recorded value of such investments exceeds fair value.

Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (EITF 00-21), effective for Viad for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Viad’s Convention and Event Services segment derives revenues primarily by providing show services to vendors at conventions and from the design and construction of exhibit booths. Exhibit design and construction revenue is generally accounted for using the completed contract method as contracts are typically completed within three months of contract signing. In certain circumstances, the application of EITF 00-21 may require that design services and exhibit booth construction be treated as separate units of accounting and that contract consideration be allocated to each unit. The revenue associated with these multiple deliverables would be recognized when the general conditions for revenue recognition have been met with respect to each unit of accounting. The adoption of EITF 00-21 is not expected to have a material impact on Viad’s financial position or results of operations.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (FIN 45). This interpretation sets forth expanded disclosure requirements in the financial statements about a guarantor’s obligations under certain guarantees that it has issued. It also clarifies that, under certain circumstances, a guarantor is required to recognize a liability for the fair value of the obligation at the inception of the guarantee. Certain types of guarantees, such as product warranties, guarantees accounted for as derivatives, and guarantees related to parent-subsidiary relationships are excluded from the liability recognition provisions of FIN 45, however, they are subject to the disclosure requirements. The initial liability recognition provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements for interim or annual periods ending after December 15, 2002. Viad’s guarantees principally relate to a parent’s guarantee of a subsidiary’s debt to a third party and would, therefore, be excluded from liability recognition at inception. The adoption of FIN 45 did not have a material impact on Viad’s financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities” (FIN 46), an interpretation of Accounting Research Bulletin No. 51, “Consolidated Financial Statements.” FIN 46 prescribes how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. FIN 46 is effective immediately for variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The interpretation applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. Viad’s Payment Services segment has certain investments in collateralized debt obligations in the form of structured notes. Under current accounting principles, Viad consolidates certain of these structured notes to the extent that it owns a majority of the beneficial interests in the grantor trust that was formed to create the structured note. Prior to the adoption of FIN 46, Viad changed the structure of two of its investments in collateralized debt obligations which would have otherwise required consolidation of the underlying asset securitization under the new rules. The adoption of FIN 46 is not expected to have a material impact on Viad’s financial condition or results of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (SFAS 149). SFAS 149 is effective for Viad for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133. The adoption of SFAS 149 is not expected to have a material impact on Viad’s financial position or results of operations.

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In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS 150). SFAS 150 is effective for Viad for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The new rules establish standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that financial instruments within its scope be classified as liabilities. At June 30, 2003, Viad had 234,983 shares of \$4.75 redeemable preferred stock outstanding at a recorded amount of \$6.7 million. The \$4.75 redeemable preferred stock is subject to mandatory redemption provisions through annual cumulative sinking fund requirements. The outstanding shares are scheduled for redemption in the years 2019 to 2058. Viad adopted SFAS 150 on July 1, 2003, and accordingly, will classify the \$4.75 redeemable preferred stock (\$6.7 million) as a long-term liability in the consolidated financial statements. In addition, all future dividend payments on the \$4.75 redeemable preferred stock will be recorded as interest expense in the Consolidated Statements of Income.

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 or trends concerning future growth, operating cash flows, availability of short-term borrowings, consumer demand, new business, investment policies, productivity improvements, ongoing cost reduction efforts, efficiency, competitiveness, tax rates, restructuring plans (including timing and realization of cost savings), yield impairment and market risk. 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 and 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 including further terrorist activities or war could affect the forward-looking statements contained in this quarterly report.

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 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.

Viad is exposed to foreign exchange risk as it has certain receivables and payables denominated in foreign currencies. Viad primarily utilizes forward contracts to hedge its exposure to fluctuations in foreign exchange rates. Forward contracts relating to Payment Services' wire transfer transactions generally have maturities less than thirty days, and forward contracts relating to other receivables or payables generally have maturities less than ninety days. The forward contracts are recorded on the Consolidated Balance Sheets, and 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.

A portion of Viad's Payment Services segment involves the payment of commissions to financial institution customers of its PrimeLink program described in Note 8, "Derivative Financial Instruments," of Notes to Consolidated Financial Statements. A Payment Services subsidiary also has entered into agreements to sell receivables primarily from its money order agents. The commissions and net proceeds from the agent 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 the variable rate risk through swap agreements which convert the variable rate payments to fixed rates.

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 agents, growth in new business, the effects of the swap agreements and the expected borrowing level of variable-rate debt, the decrease in pre-tax income would be approximately \$176,000. 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 \$1.1 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 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 \$51.8 million (reflected as an after-tax decrease in accumulated other comprehensive income of approximately \$31.6 million), an estimated increase in the fair value of derivative financial instruments of approximately \$25.3 million (reflected as an after-tax increase in accumulated other comprehensive

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income of approximately \$15.4 million) and an estimated off-balance-sheet decrease in the fair value of fixed-rate debt of approximately \$159,000 at June 30, 2003. 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 \$50.1 million (reflected as an after-tax increase in accumulated other comprehensive income of approximately \$30.6 million), an estimated decrease in the fair value of derivative financial instruments of approximately \$22.2 million (reflected as an after-tax decrease in accumulated other comprehensive income of approximately \$13.5 million) and an estimated off-balance-sheet increase in the fair value of fixed-rate debt of approximately \$160,000 at June 30, 2003. 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.

Risk Management. 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. 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. Derivative agreements are with major financial institutions which are currently expected to perform fully 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 as of the end of the period covered by 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 Exchange Act of 1934 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

- (a) The annual meeting of Stockholders of Viad Corp was held May 13, 2003.
- (b) Not applicable-(i) proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934; (ii) there was no solicitation in opposition to management's nominees as listed in the proxy statement; and (iii) all such nominees were elected.

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

1. The election of Directors as follows:

Robert H. Bohannon	
Affirmative Vote	73,011,826
Withheld Authority	2,617,440
Donald E. Kiernan	
Affirmative Vote	72,946,774
Withheld Authority	2,682,492
Douglas L. Rock	
Affirmative Vote	71,396,047
Withheld Authority	4,233,219

2. The appointment of Deloitte & Touche LLP to audit the accounts of Viad and its subsidiaries for the fiscal year 2003.

Affirmative Vote	71,206,868
Against	4,330,623
Abstentions	91,775

Item 6 . Exhibits and Reports on Form 8-K

- (a) Exhibit No. 3.A Copy of Bylaws of Viad Corp, As amended May 13, 2003.*
- Exhibit No. 10.A Copy of First Amendment to the Restated Viad Corp Supplemental Pension Plan. * +
- Exhibit No. 31.1 Exhibit of Certification of Chief Executive Officer of Viad Corp pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. A signed original of this written statement required by Section 302 has been provided to Viad Corp and will be retained by Viad Corp and furnished to the Securities and Exchange Commission or its staff upon request. *
- Exhibit No. 31.2 Exhibit of Certification of Chief Financial Officer of Viad Corp pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. A signed original of this written statement required by Section 302 has been provided to Viad Corp and will be retained by Viad Corp and furnished to the Securities and Exchange Commission or its staff upon request. *
- Exhibit No. 32.1 Additional Exhibit of Certification of Chief Executive Officer of Viad Corp pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. A signed original of this written statement required by Section 906 has been provided to Viad Corp and will be retained by Viad Corp and furnished to the Securities and Exchange Commission or its staff upon request. *

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Exhibit No. 32.2

Additional Exhibit of Certification of Chief Financial Officer of Viad Corp pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. A signed original of this written statement required by Section 906 has been provided to Viad Corp and will be retained by Viad Corp and furnished to the Securities and Exchange Commission or its staff upon request. *

(b) Reports on Form 8-K filed by the Registrant in the second quarter 2003.

A report on Form 8-K dated April 10, 2003, was filed April 10, 2003 by the Registrant. The Form 8-K reported under item 9 (provided under item 12), that on April 10, 2003, Viad Corp issued a press release announcing a change in the guidance range of its first quarter 2003 net income per share.

A report on Form 8-K dated April 24, 2003, was filed April 24, 2003 by the Registrant. The Form 8-K reported under item 9 (provided under item 12), that on April 24, 2003, Viad Corp issued a press release announcing its unaudited financial results for the first quarter 2003.

A report on Form 8-K dated May 16, 2003, was filed May 16, 2003 by the Registrant. The Form 8-K reported under item 5 that on May 16, 2003, Viad Corp issued a press release announcing that it had resolved the previously announced issue related to structure note accounting and will restate its 2002 and 2001 financial results.

*Filed herewith.

+ Management contract or compensation plan or arrangement.

SIGNATURES

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

VIAD CORP
(Registrant)

August 12, 2003

By /s/ G. Michael Latta

G. Michael Latta
Vice President – Controller
(Chief Accounting Officer
and Authorized Officer)

INDEX TO EXHIBITS

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**BYLAWS
OF
VIAD CORP**

**INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE
AS AMENDED MAY 13, 2003**

ARTICLE I

OFFICES AND RECORDS

SECTION 1.1. DELAWARE OFFICE. The principal office of the Corporation in the State of Delaware shall be located in the City of Wilmington, County of New Castle, and the name and address of its registered agent is The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware.

SECTION 1.2. OTHER OFFICES. The Corporation may have such other offices, either within or without the State of Delaware, as the Board of Directors may designate or as the business of the Corporation may from time to time require.

SECTION 1.3. BOOKS AND RECORDS. The books and records of the Corporation may be kept at the Corporation's headquarters in Phoenix, Arizona or at such other locations as may from time to time be designated by the Board of Directors.

ARTICLE II

STOCKHOLDERS

SECTION 2.1. ANNUAL MEETING. The annual meeting of the stockholders of the Corporation shall be held on the second Tuesday in May of each year, if not a legal holiday, and if a legal holiday then on the next succeeding business day, at 9:00 a.m., local time, at the principal executive offices of the Corporation, or at such other date, place and/or time as may be fixed by resolution of the Board of Directors.

SECTION 2.2. SPECIAL MEETING. Subject to the rights of the holders of the Series \$4.75 Preferred Stock, without par value but with a stated value of \$100 per share (the "\$4.75 Preferred Stock"), any series of preferred stock, par value \$.01 per share (the "Preferred Stock"), or any other series or class of stock as set forth in the Certificate of Incorporation of the Corporation to elect additional directors under specified

circumstances, special meetings of the stockholders may be called only by the Chairman of the Board or by the Board of Directors pursuant to a resolution

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adopted by a majority of the total number of directors which the Corporation would have if there were no vacancies (the "Whole Board").

SECTION 2.3. PLACE OF MEETING. The Board of Directors may designate the place of meeting for any meeting of the stockholders. If no designation is made by the Board of Directors, the place of meeting shall be the principal office of the Corporation.

SECTION 2.4. NOTICE OF MEETING. Written or printed notice, stating the place, day and hour of the meeting and the purpose or purposes for which the meeting is called, shall be prepared and delivered by the Corporation not less than ten days nor more than sixty days before the date of the meeting, either personally, or by mail, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at his address as it appears on the stock transfer books of the Corporation. Such further notice shall be given as may be required by law. Meetings may be held without notice if all stockholders entitled to vote are present, or if notice is waived by those not present. Any previously scheduled meeting of the stockholders may be postponed by resolution of the Board of Directors upon public notice given prior to the time previously scheduled for such meeting of stockholders.

SECTION 2.5. QUORUM AND ADJOURNMENT. Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the voting power of the outstanding shares of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"), represented in person or by proxy, shall constitute a quorum at a meeting of stockholders, except that when specified business is to be voted on by a class or series voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum for the transaction of such business. The chairman of the meeting or a majority of the voting power of the shares of Voting Stock so represented may adjourn the meeting from time to time, whether or not there is such a quorum (or in the case of specified business to be voted on a class or series, the chairman or a majority of the shares of such class or series so represented may adjourn the meeting with respect to such specified business). No notice of the time and place of adjourned meetings need be given except as required by law. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

SECTION 2.6. PROXIES. At all meetings of stockholders, a stockholder may vote by proxy executed in writing by the stockholder or as otherwise permitted by law, or by his duly authorized attorney-in-fact. Such proxy must be filed with the Secretary of the Corporation or his representative at or before the time of the meeting.

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SECTION 2.7. NOTICE OF STOCKHOLDER BUSINESS AND NOMINATIONS.

(A) Annual Meetings of Stockholders. (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of meeting delivered pursuant to Section 2.4 of these Bylaws, (b) by or at the direction of the Chairman or the Board of Directors or (c) by any stockholder of the Corporation who is entitled to vote at the meeting, who complied with the notice procedures set forth in clauses (2) and (3) of this paragraph (A) and this Bylaw and who was a stockholder of record at the time such notice is delivered to the Secretary of the Corporation.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than ninety days nor more than one hundred twenty days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty days, or delayed by more than sixty days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the one hundred twentieth day prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A) (2) of this Bylaw to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public

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announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least eighty days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting pursuant to Section 2.4 of these Bylaws. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in this Bylaw and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice as required by paragraph (A) (2) of this Bylaw shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the one hundred twentieth day prior to such special meeting and not later than the close of business on the later of the ninetieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(C) General. (1) Only persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Restated Certificate of Incorporation or these Bylaws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

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(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

SECTION 2.8. PROCEDURE FOR ELECTION OF DIRECTORS. Election of directors at all meetings of the stockholders at which directors are to be elected shall be by written ballot, and, except as otherwise set forth in the Certificate of Incorporation with respect to the right of the holders of the \$4.75 Preferred Stock, any series of Preferred Stock or any other series or class of stock to elect additional directors under specified circumstances, a plurality of the votes cast thereat shall elect. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, all matters other than the election of directors submitted to the stockholders at any meeting shall be decided by a majority of the votes cast with respect thereto.

SECTION 2.9. INSPECTORS OF ELECTIONS; OPENING AND CLOSING THE POLLS.

(A) The Board of Directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives of the Corporation, to act at the meeting and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act, or if all inspectors or alternates who have been appointed are unable to act, at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by the General Corporation Law of the State of Delaware.

(B) The chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

SECTION 2.10. NO STOCKHOLDER ACTION BY WRITTEN CONSENT. Subject to the rights of the holders of the \$4.75 Preferred Stock, any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation to elect additional directors under specific circumstances, any action required or permitted to be taken by the stockholders of the Corporation must be effected at an annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

EXHIBIT 3.A

ARTICLE III

BOARD OF DIRECTORS

SECTION 3.1. GENERAL POWERS. The business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors. In addition to the powers and authorities by these Bylaws expressly conferred upon them, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate of Incorporation or by these Bylaws required to be exercised or done by the stockholders.

SECTION 3.2. NUMBER, TENURE AND QUALIFICATIONS. Subject to the rights of the holders of the \$4.75 Preferred Stock, any series of Preferred Stock, or any other series or class of stock as set forth in the Certificate of Incorporation, to elect directors under specified circumstances, the number of directors shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of the Whole Board, but shall consist of not more than seventeen nor less than three directors. The directors, other than those who may be elected by the holders of the \$4.75 Preferred Stock, any series of Preferred Stock, or any other series or class of stock as set forth in the Certificate of Incorporation, shall be divided, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, with the term of office of the first class to expire at the 1992 annual meeting of stockholders, the term of office of the second class to expire at the 1993 annual meeting of stockholders and the term of office of the third class to expire at the 1994 annual meeting of stockholders. Each director shall hold office until his or her successor shall have been duly elected and qualified. At each annual meeting of stockholders, commencing with the 1992 annual meeting, (i) directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his or her successor shall have been duly elected and qualified, and (ii) if authorized by a resolution of the Board of Directors, directors may be elected to fill any vacancy on the Board of Directors, regardless of how such vacancy shall have been created.

Notwithstanding the foregoing, no outside director shall be nominated by the Board of Directors for election as a director for another term of office unless such term of office shall begin before he attains age 75, provided, however, that any outside director who had attained age 65 on May 10, 1983 may be nominated by the Board of Directors for election as a director for another term of office unless such term of office shall begin before he attains age 72; and no inside director's term of office shall continue after he attains age 65 or after the termination of his services as an officer or employee of the Corporation, unless such continuance is approved by a majority of the outside directors on the Board of Directors at the time the disqualifying event occurs and each time thereafter that such inside director is

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nominated for reelection. The term "outside director" means any person who has never served as an officer or employee of the Corporation or an affiliate and the term "inside director" means any director who is not an "outside director." Any person who is ineligible for re-election as a director under this paragraph may, by a majority vote of the Board of Directors, be designated as a "Director Emeritus" and as such shall be entitled to receive notice of, and to attend meetings of, the Board of Directors, but shall not vote at such meetings.

SECTION 3.3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this Bylaw immediately after, and at the same place as, each annual meeting of stockholders. The Board of Directors may, by resolution, provide the time and place for the holding of additional regular meetings without other notice than such resolution.

SECTION 3.4. SPECIAL MEETINGS. Special meetings of the Board of Directors shall be called at the request of the Chairman of the Board, the President or a majority of the Board of Directors. The person or persons authorized to call special meetings of the Board of Directors may fix the place and time of the meetings.

SECTION 3.5. NOTICE. Notice of any special meeting shall be given to each director at his business or residence in writing or by telegram or by telephone communication. If mailed, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least five days before such meeting. If by telegram, such notice shall be deemed adequately delivered when the telegram is delivered to the telegraph company at least twenty-four hours before such meeting. If by facsimile transmission, such notice shall be transmitted at least twenty-hours before such meeting. If by telephone, the notice shall be given at least twelve hours prior to the time set for the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice of such meeting, except for amendments to these Bylaws as provided under Section 7.1 of Article VII hereof. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting in writing, either before or after such meeting.

SECTION 3.6. QUORUM. A whole number of directors equal to at least a majority of the Whole Board shall constitute a quorum for the transaction of business, but if at any meeting of the Board of Directors there shall be less than a quorum present, a majority of the directors present may adjourn the meeting from time to time without further notice. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. The directors present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

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SECTION 3.7. VACANCIES. Subject to the rights of the holders of the \$4.75 Preferred Stock, any series of Preferred Stock or any other series or class of stock, as set forth in the Certificate of Incorporation, to elect additional directors under specified circumstances, and unless the Board of Directors otherwise determines, vacancies resulting from death, resignation, retirement, disqualification, removal from office or other cause, and newly created directorships resulting from any increase in the authorized number of directors, may be filled only by the affirmative vote of a majority of the remaining directors, though less than a quorum of the Board of Directors, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires and until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the Whole Board shall shorten the term of any incumbent director.

SECTION 3.8. EXECUTIVE COMMITTEE. The Board of Directors, immediately following each annual meeting of stockholders or a special meeting of the same held in lieu of the annual meeting for the election of directors, shall meet and shall appoint from its number an Executive Committee of such number of members as from time to time may be selected by the Board, to serve until the next annual or special meeting at which a majority of directors is elected or until the respective successor of each is duly appointed. The Executive Committee shall possess and may exercise all the powers and authority of the Board of Directors in the management and direction of the business and affairs of the Corporation, except as limited by law and except for the power to change the membership or to fill vacancies in the Board or said Committee. The Board shall have the power at any time to change the membership of said Committee, to fill vacancies in it or to make rules for the conduct of its business.

SECTION 3.9. REMOVAL. Subject to the rights of the holders of the \$4.75 Preferred Stock, any series of Preferred Stock or any other series or class of stock, as set forth in the Certificate of Incorporation, to elect additional directors under specified circumstances, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 80 percent of the voting power of the then outstanding Voting Stock, voting together as a single class.

ARTICLE IV

OFFICERS

SECTION 4.1. ELECTED OFFICERS. The elected officers of the Corporation shall be a Chairman of the Board, a President, a Secretary, a Treasurer, and such other officers as the Board of Directors from time to time may deem proper. The Chairman of the Board shall be chosen from the directors. All officers chosen by the Board of

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Directors shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article IV. Such officers shall also have such powers and duties as from time to time may be conferred by the Board of Directors or by any committee thereof.

SECTION 4.2. ELECTION AND TERM OF OFFICE. The elected officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board of Directors held after each annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Subject to Section 4.7 of these Bylaws, each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign.

SECTION 4.3. CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the stockholders and of the Board of Directors. The Chairman of the Board shall be responsible for the general management of the affairs of the Corporation and shall perform all duties incidental to his office which may be required by law and all such other duties as are properly required of him by the Board of Directors. Except where by law the signature of the President is required, the Chairman of the Board shall possess the same power as the President to sign all certificates, contracts, and other instruments of the Corporation which may be authorized by the Board of Directors. He shall make reports to the Board of Directors and the stockholders, and shall perform all such other duties as are properly required of him by the Board of Directors. He shall see that all orders and resolutions of the Board of Directors and of any committee thereof are carried into effect.

SECTION 4.4. PRESIDENT. The President shall act in a general executive capacity and shall assist the Chairman of the Board in the administration and operation of the Corporation's business and general supervision of its policies and affairs. The President shall, in the absence of or because of the inability to act of the Chairman of the Board, perform all duties of the Chairman of the Board and preside at all meetings of stockholders and of the Board of Directors. The President may sign, alone or with the Secretary, or an Assistant Secretary, or any other proper officer of the Corporation authorized by the Board of Directors, certificates, contracts, and other instruments of the Corporation as authorized by the Board of Directors.

SECTION 4.5. SECRETARY. The Secretary shall give, or cause to be given, notice of all meetings of stockholders and Directors and all other notices required by law or by these Bylaws, and in case of his absence or refusal or neglect so to do, any such notice may be given by any person thereunto directed by the Chairman of the Board or the President, or by the Board of Directors, upon whose request the meeting is called as provided in these Bylaws. He shall record all the proceedings of the meetings of the Board of Directors, any committees thereof and the stockholders

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of the Corporation in a book to be kept for that purpose, and shall perform such other duties as may be assigned to him by the Board of Directors, the Chairman of the Board or the President. He shall have the custody of the seal of the Corporation and may affix the same to all instruments requiring it, and attest to the same.

SECTION 4.6. TREASURER. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate account of receipts and disbursements in books belonging to the Corporation. The Treasurer shall deposit all moneys and other valuables in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, the Chairman of the Board, or the President, taking proper vouchers for such disbursements. The Treasurer shall render to the Chairman of the Board, the President and the Board of Directors, whenever requested, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond for the faithful discharge of his duties in such amount and with such surety as the Board of Directors shall prescribe.

SECTION 4.7. REMOVAL. Any officer elected by the Board of Directors may be removed by a majority of the members of the Whole Board whenever, in their judgment, the best interests of the Corporation would be served thereby. No elected officer shall have any contractual rights against the Corporation for compensation by virtue of such election beyond the date of the election of his successor, his death, his resignation or his removal, whichever event shall first occur, except as otherwise provided in an employment contract or an employee plan.

SECTION 4.8. VACANCIES. A newly created office and a vacancy in any office because of death, resignation, or removal may be filled by the Board of Directors for the unexpired portion of the term at any meeting of the Board of Directors.

ARTICLE V

STOCK CERTIFICATES AND TRANSFERS

SECTION 5.1. STOCK CERTIFICATES AND TRANSFERS

(A) The interest of each stockholder of the Corporation shall be evidenced by certificates for shares of stock in such form as the appropriate officers of the Corporation may from time to time prescribe, provided, that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the stock of the Corporation shall be uncertificated shares. Notwithstanding the adoption of such a resolution by the Board of Directors, every

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holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the Chairman or Vice-Chairman of the Board of Directors, or the President or Vice-President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation representing the number of shares registered in certificate form. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

(B) The certificates of stock shall be signed, countersigned and registered in such manner as the Board of Directors may by resolution prescribe, which resolution may permit all or any of the signatures on such certificates to be in facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

(C) The shares of the stock of the Corporation represented by certificates shall be transferred on the books of the Corporation by the holder thereof in person or by his attorney, upon surrender for cancellation of certificates for the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, with such proof of the authenticity of the signature as the corporation or its agents may reasonably require. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to the Delaware General Corporation Law or, unless otherwise provided by the Delaware General Corporation Law, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

SECTION 5.2. LOST, STOLEN, OR DESTROYED CERTIFICATES. No Certificate for shares or uncertificated shares of stock in the Corporation shall be issued in place of any certificate alleged to have been lost, destroyed or stolen, except on production of such evidence of such loss, destruction or theft and on delivery to the Corporation of a bond of indemnity in such amount, upon such terms and secured by such surety, as the Board of Directors or any financial officer may in its or his discretion require.

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ARTICLE VI

MISCELLANEOUS PROVISIONS

SECTION 6.1. FISCAL YEAR. The fiscal year of the Corporation shall begin on the first day of January and end on the thirty-first day of December of each year.

SECTION 6.2. DIVIDENDS. The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and its Restated Certificate of Incorporation.

SECTION 6.3. SEAL. The corporate seal shall be in circular form and shall have inscribed thereon the name of the Corporation and the words "Corporate Seal--Delaware."

SECTION 6.4. WAIVER OF NOTICE. Whenever any notice is required to be given to any stockholder or director of the Corporation under the provisions of the General Corporation Law of the State of Delaware, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the stockholders of the Board of Directors need be specified in any waiver of notice of such meeting.

SECTION 6.5. AUDITS. The accounts, books and records of the Corporation shall be audited upon the conclusion of each fiscal year by an independent certified public accountant selected by the Board of Directors, and it shall be the duty of the Board of Directors to cause such audit to be made annually.

SECTION 6.6. RESIGNATIONS. Any director or any officer, whether elected or appointed, may resign at any time by serving written notice of such resignation on the Chairman of the Board, the President or the Secretary, and such resignation shall be deemed to be effective as of the close of business on the date said notice is received by the Chairman of the Board, the President, or the Secretary or at such later date as is stated therein. No formal action shall be required of the Board of Directors or the stockholders to make any such resignation effective.

SECTION 6.7. INDEMNIFICATION AND INSURANCE. (A) Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director,

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officer, employee or agent of any other corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in paragraph (B) of this Bylaw with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation.

(B) If a claim under paragraph (A) of this Bylaw is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the General Corporation Law of the State of Delaware for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(C) Following any "change in control" of the Corporation of the type required to be reported under Item 1 of Form 8-K promulgated under the Exchange Act, any

EXHIBIT 3.A

determination as to entitlement to indemnification shall be made by independent legal counsel selected by the claimant, which independent legal counsel shall be retained by the Board of Directors on behalf of the Corporation.

(D) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Bylaw shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

(E) The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware.

(F) The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and rights to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any agent of the Corporation to the fullest extent of the provisions of this Bylaw with respect to the indemnification and advancement of expenses of directors, officers and employees of the Corporation.

(G) The right to indemnification conferred in this Bylaw shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that if the General Corporation Law of the State of Delaware requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Bylaw or otherwise.

(H) Any amendment or repeal of this Article VI shall not adversely affect any right or protection existing hereunder in respect of any act or omission occurring prior to such amendment or repeal.

SECTION 6.8. ELECTION NOT TO BE SUBJECT TO ARIZONA CONTROL SHARE ACQUISITIONS STATUTE. The Corporation elects not to be subject to Title 10,

EXHIBIT 3.A

Chapter 23, Article 2 of the Arizona Revised Statutes, relating to "Control Share Acquisitions."

ARTICLE VII

AMENDMENTS

SECTION 7.1. AMENDMENTS. These Bylaws may be amended, added to, rescinded or repealed at any meeting of the Board of Directors or of the stockholders, provided notice of the proposed change was given in the notice of the meeting and, in the case of a meeting of the Board of Directors, in a notice given no less than twenty-four hours prior to the meeting; provided, however, that, in the case of amendments by stockholders, notwithstanding any other provisions of these Bylaws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of stock required by law, the Certificate of Incorporation or these Bylaws, the affirmative vote of the holders of at least 80 percent of the voting power of the then outstanding Voting Stock, voting together as a single class, shall be required to alter, amend or repeal any provision of these Bylaws.

EXHIBIT 10.A

**FIRST AMENDMENT TO THE RESTATED
VIAD CORP SUPPLEMENTAL PENSION PLAN**

WHEREAS, the Viad Corp Supplemental Pension Plan (the "Plan") was amended and restated on January 1, 2001; and

WHEREAS, certain provisions of the Plan need to be updated to comport with recent events and to clarify the administration of the Plan;

NOW, THEREFORE, the Plan is hereby amended as follows:

1. The first sentence of Article 7(a) relating to Final Average Earnings is amended to delete the term "sales commissions" after the word "salary."
2. Article 13(a) "Change of Control" is amended by deleting the phrase "the annual rate of interest on 30-year Treasury securities" and replacing it with "the rate prescribed by Section 417(e)(3)(A)(ii)(II) of the Code."
3. Section 3 (Table B) and Section 4(a) of Schedule B' (as such reference the Executive Severance Agreement) are amended by deleting the date references to "January 1997" or "January 1, 1997" and replacing them with "March 2003" or "March 25, 2003" as applicable.

Approved this 13th day of May, 2003.

By: /s/ Scott E. Sayre

Scott E. Sayre,
Vice President-General Counsel and Secretary,
Viad Corp

EXHIBIT 31.1

CERTIFICATION

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2003

By /s/ Robert H. Bohannon

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

EXHIBIT 31.2

CERTIFICATION

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2003

By /s/ Ellen M. Ingersoll

Ellen M. Ingersoll
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert H. Bohannon, Chief Executive Officer of Viad Corp, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. the quarterly report on Form 10-Q of Viad Corp for the fiscal quarter ended June 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Viad Corp.

Dated: August 12, 2003

By /s/ Robert H. Bohannon

*Robert H. Bohannon
Chief Executive Officer*

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Ellen M. Ingersoll, Chief Financial Officer of Viad Corp, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. the quarterly report on Form 10-Q of Viad Corp for the fiscal quarter ended June 30, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Viad Corp.

Dated: August 12, 2003

By /s/ Ellen M. Ingersoll

*Ellen M. Ingersoll
Chief Financial Officer*

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