VIAD CORP
Form 10-Q
August 07, 2006

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

(Mark one)

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from __________ to __________

Commission File Number: 001-11015

VIAD CORP

(Exact name of registrant as specified in its charter)

Delaware	**36-1169950**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1850 North Central Avenue, Suite 800 Phoenix, Arizona	**85004-4545**
(Address of principal executive offices)	(Zip Code)

(602) 207-4000

(Registrant s telephone number, including area code)

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

As of July 31, 2006, 21,648,596 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
(Unaudited)

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

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

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

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

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

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

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

See Notes to Consolidated Financial Statements.

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VIAD CORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

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

Cash and cash equivalents, beginning of year	152,601	115,050
Cash and cash equivalents, end of period	$ 160,793	$ 120,287
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income taxes	$ 6,989	$ 16,632
Interest	$ 565	$ 1,022
Equipment acquired under capital leases	$ 667	$ 659

See Notes to Consolidated Financial Statements.

VIAD CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Preparation and Principles of Consolidation

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

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

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

Note 2. Share-Based Compensation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate intrinsic value related to stock options outstanding as of June 30, 2006 was $8.0 million. The aggregate intrinsic value is based on the weighted-average exercise price and Viad s closing stock price of $31.30 as of June 30, 2006. The total intrinsic value of stock option awards exercised during the six months ended June 30, 2006 and 2005 was $3.8 million and $2.5 million, respectively. The fair value of stock options that vested during the six months ended June 30, 2006 and 2005 was $1.9 million and $1.6 million, respectively. During the six months ended June 30, 2006 and 2005, Viad received cash proceeds from the exercise of stock options of $3.7 million and $2.6 million, respectively. The actual tax benefits realized for the tax deductions related to the exercise of stock options and vesting of restricted stock and performance-based awards was $4.8 million and $235,000 for the six months ended June 30, 2006 and 2005, respectively.

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

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

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

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

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

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

Note 3. Impairment Losses and Recoveries

In September 2005, GES s operations in New Orleans, Louisiana were severely impacted by Hurricane Katrina and related events. As a result, management estimated the damage to GES s New Orleans property and recorded asset impairment and related losses of $843,000. During the six months ended June 30, 2006, Viad recorded insurance recoveries of $843,000 related to claims associated with Hurricane Katrina which are included in the consolidated statements of operations under the caption Impairment recoveries. The final resolution of these claims remains pending with Viad s insurance carriers, and the amounts of additional recoveries, if any, remain uncertain.

Note 4. Gains on Sale of Corporate Assets

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

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

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Note 5. Inventories

The components of inventories were as follows:

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

Note 6. Property and Equipment

Property and equipment consisted of the following:

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

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

Note 7. Goodwill and Other Intangible Assets

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

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

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

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

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

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

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

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

Note 8. Accrued Liabilities and Other

Other current liabilities consisted of the following:

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

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

Other deferred items and insurance liabilities consisted of the following:

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

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Note 9. Debt

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

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

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

Note 10. Income Per Share

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

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

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

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Note 11. Income Taxes

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

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

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

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

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

Note 12. Pension and Other Postretirement Benefit Plans

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

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

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

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

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

Note 13. Restructuring Charges and Recoveries

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

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

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

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

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

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Note 14. Litigation, Claims and Other Contingencies

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

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

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

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

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

Note 15. Related Party Transactions

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

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

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

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

Note 16. Segment Information

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

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

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

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

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Note 17. Impact of Recent Accounting Pronouncements

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

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

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

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