

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

FORM 10-Q

(Mark One)

QUARTERLY report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2003

OR

TRANSITION report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____
Commission file number 0-33347

AMBASSADORS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation of organization)

Dwight D. Eisenhower Building
110 South Ferrall Street
Spokane, Washington

(Address of principal
executive offices)

91-1957010

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

99202

(Zip code)

Registrant's telephone number, including area code: (509) 534-6200

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

Yes No

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

Yes No

The number of shares outstanding of the registrant's common stock, as of the latest practical date:

Common shares outstanding as of October 31, 2003: 9, 973, 983

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**PART I
FINANCIAL INFORMATION**

Item 1. FINANCIAL STATEMENTS

AMBASSADORS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

September 30, 2003, and December 31, 2002

(in thousands, except share and per share amounts)

	September 30, 2003 (Unaudited)	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents (includes \$12 of restricted cash)	\$19,659	\$29,503
Available-for-sale securities	30,334	21,896
Foreign currency exchange contracts	1,522	1,642
Prepaid program costs and expenses	2,833	1,516
Other current assets	163	91
	<u>54,511</u>	<u>54,648</u>
Total current assets	54,511	54,648
Property and equipment, net	1,815	1,914
Deferred tax asset	1,641	1,711
Other assets	83	244
	<u>\$58,050</u>	<u>\$58,517</u>
Total assets	\$58,050	\$58,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,941	\$ 2,662
Accrued expenses	4,933	1,579
Participants' deposits	7,972	25,901
Deferred tax liability	449	515
	<u>16,295</u>	<u>30,657</u>
Total current liabilities	16,295	30,657
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value; 20,000,000 shares authorized; 9,949,305 and 9,877,702 shares issued and outstanding	99	99
Additional paid-in capital	16,375	15,808
Retained earnings	24,243	10,798
Accumulated other comprehensive income	1,038	1,155
	<u>41,755</u>	<u>27,860</u>
Total stockholders' equity	41,755	27,860
Total liabilities and stockholders' equity	<u>\$58,050</u>	<u>\$58,517</u>

The accompanying notes are an integral part of the consolidated financial statements.

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AMBASSADORS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
For the three and nine months ended September 30, 2003, and 2002
(in thousands, except per share amounts)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
Revenues	\$35,452	\$34,317	\$16,231	\$16,284
Operating expenses:				
Selling and tour promotion	12,769	10,834	6,293	5,214
General and administrative	2,979	3,373	811	1,074
	15,748	14,207	7,104	6,288
Operating income	19,704	20,110	9,127	9,996
Other income:				
Interest and dividend income	667	812	177	283
Income before income taxes	20,371	20,922	9,304	10,279
Income tax provision	6,926	7,113	3,163	3,548
Net income	\$13,445	\$13,809	\$ 6,141	\$ 6,731
Net income per share - basic	\$ 1.36	\$ 1.40	\$ 0.62	\$ 0.68
Weighted-average common shares outstanding - basic	9,905	9,829	9,936	9,839
Net income per share - diluted	\$ 1.33	\$ 1.37	\$ 0.60	\$ 0.67
Weighted-average common shares outstanding - diluted	10,112	10,086	10,220	10,000

The accompanying notes are an integral part of the consolidated financial statements.

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AMBASSADORS GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the three and nine months ended September 30, 2003, and 2002

(in thousands)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
Net Income	\$13,445	\$13,809	\$6,141	\$6,731
Unrealized gain (loss) on foreign currency exchange contracts, net of income tax (provision) benefit of \$41, \$(269), \$138, and \$112	(80)	520	(268)	(190)
Unrealized loss on available-for-sale securities, net of income tax benefit of \$24 and \$11	(37)	—	(20)	—
Comprehensive income	\$13,328	\$14,329	\$5,853	\$6,541

The accompanying notes are an integral part of the consolidated financial statements.

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AMBASSADORS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the nine months ended September 30, 2003, and 2002
(in thousands)

	2003	2002
Cash flows from operating activities:		
Net income	\$ 13,445	\$ 13,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	725	582
Deferred income tax provision	70	—
Change in assets and liabilities:		
Prepaid program costs and expenses	(1,317)	(332)
Accounts payable and accrued expenses	3,633	3,233
Participants' deposits	(17,929)	(8,955)
Other current assets	(72)	13
Net cash (used in) provided by operating activities	(1,445)	8,350
Cash flows from investing activities:		
Purchase of other investments	(13)	(2)
Purchase of property and equipment	(453)	(104)
Purchase of available-for-sale securities	(29,457)	(25,264)
Proceeds from sale or maturities of available-for-sale securities	20,957	24,511
Net cash used in investing activities	(8,966)	(859)
Cash flows from financing activities:		
Proceeds from exercise of stock options	567	122
Net dividend to Ambassadors (former parent)	—	(20,493)
Contribution from Ambassadors (former parent)	—	10,400
Net cash provided by (used in) financing activities	567	(9,971)
Net decrease in cash and cash equivalents	(9,844)	(2,480)
Cash and cash equivalents, beginning of period	29,503	16,518
Cash and cash equivalents, end of period	\$ 19,659	\$ 14,038

The accompanying notes are an integral part of the consolidated financial statements.

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AMBASSADORS GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF CONSOLIDATION:

Ambassadors Group, Inc., (“Company” or “Group”) is a leading educational travel company that organizes and promotes international and domestic programs for students, athletes, and professionals. These programs provide opportunities for grade school, junior, and senior high school students to visit foreign and domestic destinations to learn about the history, government, economy and culture of such areas, as well as for junior and senior high school athletes to participate in international sports challenges. The Company’s professional programs emphasize meetings and seminars between participants and persons in similar professions abroad.

The business of the Company has been active since its former parent, Ambassadors International, Inc., (“Ambassadors”) was founded in 1967. In 1995, in connection with Ambassadors’ initial public offering, the business of Ambassadors was transferred to the Company and the Company became a wholly owned subsidiary of Ambassadors. On February 28, 2002, the Company was spun-off to the stockholders of Ambassadors.

Beginning February 28, 2002, Group has operated as an independent stand-alone company. Prior to February 28, 2002, Group was a wholly owned subsidiary of Ambassadors.

On January 25, 2002, the Board of Directors of Ambassadors approved the distribution of all of the Company’s common stock to Ambassadors’ stockholders (the spin-off). The Ambassadors board of directors declared a dividend of the Company’s common stock to the Ambassadors’ stockholders of record on February 4, 2002. The dividend was distributed after the close of business on February 28, 2002, in the amount of one share of the Company’s common stock for each outstanding share of Ambassadors common stock. The distribution of common stock was intended to be tax-free to the Company and to its stockholders, and Ambassadors received a favorable Internal Revenue Service private letter ruling to that effect. The trading of the common stock of the Company on the Nasdaq National Market began on March 1, 2002, under the ticker symbol “EPAX.” Prior to February 28, 2002, the Company comprised the operations of the former Education Group segment of Ambassadors.

In anticipation of the spin-off transaction, the Company’s common stock was split in April 2001 and February 2002 and 9,813,140 shares became issued and outstanding. Shares outstanding have been retroactively adjusted for the stock split.

Prior to the spin-off from Ambassadors, the Company transferred cash to Ambassadors as a dividend. Additionally, prior to the spin-off, Ambassadors funded business acquisitions and certain working capital requirements of the Company, and has not charged any interest on these advances. These transactions have been recorded as contributions from the parent company. In connection with the spin-off, Group entered into agreements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

with Ambassadors that separated the Company's business operations from Ambassadors. These agreements also govern ongoing relationships. During 2002, prior to its spin-off from Ambassadors and pursuant to the Master Separation and Distribution Agreement, the Company paid to Ambassadors a cash dividend approximating \$2.08 per outstanding share. Ambassadors also made a capital contribution to the Company of approximately \$10.4 million.

The consolidated financial statements include the accounts of Ambassadors Group, Inc., and its wholly owned subsidiaries, Ambassador Programs, Inc., Ambassadors Sports Group, Inc., Ambassadors Specialty Group, Inc., and Ambassadors Unlimited, LLC. All significant intercompany accounts and transactions are eliminated in consolidation. The unaudited financial statements include all adjustments consisting of normal recurring accruals that, in the opinion of management, are necessary for a fair statement of the interim periods.

The consolidated financial statements, for the period from January 1, 2002, through February 28, 2002, have been carved out from the consolidated financial statements of Ambassadors using the historical operating results and historical bases of the assets and liabilities of Ambassadors' business, which the Company comprised. Accordingly, the historical financial information presented herein does not necessarily reflect what the Company's financial position, operating results and cash flows would have been had the Company been a separate, stand-alone entity during the periods presented.

The consolidated financial statements include certain costs incurred by Ambassadors, which have been allocated to the Company through February 28, 2002, the date of the spin-off. These costs are primarily corporate personnel, finance, travel, marketing and other general and administrative costs. The costs have been allocated to the Company primarily based on headcount or revenues of the Company relative to the total consolidated headcount or revenues of Ambassadors. Management believes the cost allocations are reasonable within the consolidated parent company. If the Company operated as a separate entity without Ambassadors, management believes that these expenses would have increased due to increased costs associated with being a stand-alone public company and the additional personnel costs, marketing costs, and other general and administrative costs associated therewith. Management believes that these expenses would have increased on an unaudited, proforma basis by approximately \$171,000 for the two months ended February 28, 2002.

The Company has a single operating segment consisting of the educational travel and sports programs for students, athletes and professionals. These programs have similar economic characteristics, offer comparable products to delegates (individuals enrolled in one of the Company's educational travel programs), and utilize similar processes for program marketing.

Certain prior year amounts have been reclassified to conform with current year financial statement presentation. These reclassifications had no impact on previously reported net income, cash flows or stockholders' equity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

2. INCOME PER SHARE:

Net income per share - basic is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Net income per share - diluted is computed by increasing the weighted-average number of common shares outstanding by the additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

The following table presents a reconciliation of basic and diluted earnings per share (EPS) computations (in thousands, except per share amounts):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
Numerator:				
Net income for basic and diluted earnings per share	\$13,445	\$13,809	\$ 6,141	\$ 6,731
Denominator:				
Weighted-average shares outstanding -basic	9,905	9,829	9,936	9,839
Effect of dilutive common stock options	207	257	284	161
Weighted-average shares outstanding - diluted	10,112	10,086	10,220	10,000
Net income per share - basic	\$ 1.36	\$ 1.40	\$ 0.62	\$ 0.68
Net income per share - diluted	\$ 1.33	\$ 1.37	\$ 0.60	\$ 0.67

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

3. STOCK INCENTIVE PLAN:

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" (FAS 148). This statement amends SFAS No. 123 "Accounting for Stock Based Compensation" (FAS 123) to provide alternative methods of voluntarily transitioning to the fair value based method of accounting for stock-based employee compensation. FAS 148 also amends the disclosure requirements of FAS 123 to require disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in both annual and interim financial statements.

The Company has adopted the disclosure-only provisions of SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." Accordingly, no compensation expense has been recognized in the three or nine-month periods ended September 30, 2003 and 2002, for unexercised options related to the stock option plan. Had compensation cost for the Company's stock option plan been determined based on fair value at the grant dates under the plan consistent with the method of SFAS No. 123, the Company's net income and net income per share amounts for the three and nine-month periods ended September 30, 2003 and 2002, would have been changed to the pro forma amounts indicated below (in thousands, except per share data):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
Net income as reported	\$13,445	\$13,809	\$6,141	\$6,731
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	304	507	108	217
Pro forma net income	\$13,141	\$13,302	\$6,033	\$6,514
Pro forma net income per share – basic	\$ 1.33	\$ 1.35	\$ 0.61	\$ 0.66
Pro forma net income per share - diluted	\$ 1.30	\$ 1.32	\$ 0.59	\$ 0.65

The Company does not anticipate adoption of the fair value based method of accounting for stock-based compensation under the current accounting rules.

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

This quarterly report on Form 10-Q contains forward-looking statements regarding the Company's actual and expected financial performance and the reasons for variances between quarter-to-quarter results. Forward-looking statements, which are included per the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995, may involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results and performance in future periods to be materially different from any future results or performance suggested by the forward-looking statements in this report. Such forward-looking statements speak only as of the date of this report, and are subject to risks including: the consequences of the war with Iraq, conflict in the Middle East, periods of international unrest, the outbreak of disease, changes in the direct-mail environment, changes in conditions in the travel industry, changes in economic conditions and changes in the competitive environment. The Company expressly disclaims any obligation to provide public updates or revisions to any forward-looking statements found herein to reflect any changes in Company expectations or any change in events. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be attained. For a more complete discussion of these and other factors, please refer to the Company's Annual Report for the year ended December 31, 2002 on Form 10-K filed on March 21, 2003.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of the Company's financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management evaluates estimates, including those related to cash and cash equivalents, available-for-sale securities, intangible assets, income taxes, derivative financial instruments, and contingencies on an ongoing basis. Management bases these estimates on historical experience and on other assumptions believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of critical accounting policies and related judgment and estimates that affect the preparation of the consolidated financial statements is set forth in the Annual Report on Form 10-K for the year ended December 31, 2002.

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COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2003, TO THE THREE MONTHS ENDED SEPTEMBER 30, 2002

GROSS PROGRAM RECEIPTS

Gross program receipts increased to \$46.8 million in the third quarter ended September 30, 2003, from \$41.0 million in the third quarter ended September 30, 2002. The \$5.8 million increase was due primarily to an increase in program tuition and to traveling approximately 1,000 more delegates; increasing total delegates traveled to approximately 10,000 in the third quarter of 2003 compared to approximately 9,000 traveling in the third quarter of 2002.

NET REVENUE

Net revenue for the three months ended September 30, 2003 and 2002, was comparable at \$16.2 million and \$16.3 million, respectively. Gross margin (revenue as a percentage of gross program receipts) decreased to 35 percent in the third quarter of 2003 as compared to a 40 percent gross margin in the third quarter of 2002. The decrease in gross margin of 5 percent primarily resulted from two events. First, a decline the gross margin resulted from a weaker U.S. dollar relative to the currencies in which the Company pays foreign suppliers, including the Euro dollar, Australian dollar, and British pound. In addition, the average travel group size was smaller in the third quarter of 2003 compared to the third quarter of 2002, which negatively affected the gross margin.

SELLING AND TOUR PROMOTION EXPENSES

The Company's policy is to expense all selling and tour promotion costs as they are incurred.

Selling and tour promotion expenses increased to \$6.3 million in the third quarter ended September 30, 2003, from \$5.2 million in the comparable quarter of 2002. The \$1.1 million increase in expenses is primarily due to increased marketing efforts for programs traveling in 2004 and increased staffing costs due to traveling additional delegates.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased to \$0.8 million in the third quarter ended September 30, 2003 from \$1.1 million in the comparable quarter of 2002. The \$0.3 million decrease in expenses is primarily due to a reduction in estimated liability related to certain professional fees.

OPERATING INCOME

Operating income was \$9.1 million in the third quarter ended September 30, 2003, and \$10.0 million in the comparable quarter of 2002. The \$0.9 million decrease in operating income is the result of changes described above.

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OTHER INCOME

Other income consists primarily of interest income generated by cash, cash equivalents and available-for-sale securities. As of September 30, 2003, the Company had \$50.0 million in cash, cash equivalents and available-for-sale securities compared to \$38.0 million at September 30, 2002. Although cash and cash equivalents and available-for-sale securities increased \$12.0 million, interest income realized in the third quarter ended September 30, 2003 was \$0.2 million compared to \$0.3 million in the comparable quarter of 2002. The decrease in interest income is due to lower rates of return during the quarter ended September 30, 2003, of approximately 1.2 percent as compared to approximately 2.2 percent during the quarter ended September 30, 2002.

INCOME BEFORE INCOME TAX PROVISION

Income before income tax provision was \$9.3 million in the third quarter ended September 30, 2003, and \$10.3 million in the comparable quarter of 2002. The \$1.0 million decrease is the result of the changes described above.

INCOME TAX PROVISION

The Company recorded an income tax provision of approximately \$3.2 million for the third quarter ended September 30, 2003, and \$3.5 million for the comparable quarter of 2002. The income tax provision has been recorded based upon the estimated annual effective income tax rate applied to the pre-tax income. The estimated annual effective income tax rate for the third quarter ended September 30, 2003 and 2002 was 34.0 percent and 34.5 percent, respectively.

NET INCOME

Net income was \$6.1 million in the third quarter ended September 30, 2003, compared to \$6.7 million in the third quarter ended September 30, 2002. The \$0.6 million decrease is the result of the changes described above.

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COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2003, TO THE NINE MONTHS ENDED SEPTEMBER 30, 2002

GROSS PROGRAM RECEIPTS

Gross program receipts were \$103.1 million for the nine months ended September 30, 2003, compared to \$92.8 million for the nine months ended September 30, 2002. The number of delegates traveling during the first nine months of 2003 and 2002 was approximately 22,000 and 20,600, respectively. The \$10.3 million increase in gross program receipts was primarily due to an increase in the number of delegates and an increase in program tuitions.

NET REVENUE

Net revenue was \$35.5 million and \$34.3 million for the nine months ended September 30, 2003 and 2002, respectively. The increase is attributed to an increase in the number of delegates traveled as stated above. Gross margin (revenue as a percentage of gross program receipts) decreased to 34 percent in the nine months ended September 30, 2003, as compared to a 37 percent gross margin in the nine months ended September 30, 2002. The decrease in gross margin of 3 percent primarily resulted from two events. First, a decline in the gross margin resulted from a weaker U.S. dollar relative to the currencies in which the Company pays foreign suppliers, including the Euro dollar, Australian dollar, and British pound. In addition, the average travel group size was smaller in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002, which negatively affected the gross margin.

SELLING AND TOUR PROMOTION EXPENSES

The Company's policy is to expense all selling and tour promotion costs as they are incurred.

Selling and tour promotion expenses increased to \$12.8 million for the nine months ended September 30, 2003, from \$10.8 million in the comparable period of 2002. The \$1.9 million increase in expenses is primarily due to increased marketing efforts for programs traveling in 2004 and increased staffing costs due to traveling additional delegates.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses decreased to \$3.0 million for the nine months ended September 30, 2003, from \$3.4 million in the comparable period of 2002. The \$0.4 million decrease in expenses is primarily due to a reduction in estimated liability related to certain professional fees.

OPERATING INCOME

Operating income was \$19.7 million and \$20.1 million in the nine months ended September 30, 2003, and 2002, respectively. The \$0.4 million operating income decrease is the result of changes described above.

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OTHER INCOME

Other income consists primarily of interest income generated by cash, cash equivalents and available-for-sale securities. As of September 30, 2003, the Company had \$50.0 million in cash, cash equivalents and available-for-sale securities compared to \$38.0 million at September 30, 2002. Although cash and cash equivalents and available-for-sale securities increased \$12.0 million, interest income realized during the nine months ended September 30, 2003 was \$0.7 million compared to \$0.8 million during the same period of 2002. The decrease in interest income is due to lower rates of return during the nine months ended September 30, 2003, of approximately 1.7 percent as compared to approximately 2.4 percent during the nine months ended September 30, 2002.

INCOME BEFORE INCOME TAX PROVISION

Income before income tax provision was \$20.4 million in the nine months ended September 30, 2003, in comparison to \$20.9 million in the nine months ended September 30, 2002. The \$0.5 million decrease is the result of changes described above.

INCOME TAX PROVISION

The Company has recorded an income tax provision of approximately \$6.9 million and \$7.1 million for the first nine months of 2003 and 2002, respectively. The income tax provision has been recorded based upon the estimated annual effective income tax rate applied to the pre-tax income. The estimated annual effective income tax rate for the nine months ended September 30, 2003 and 2002 was 34.0 percent.

NET INCOME

Net income was \$13.4 million for the nine months ended September 30, 2003, compared to \$13.8 million for the nine months ended September 30, 2002. The net income decrease of \$0.4 million is the result of changes described above.

SEASONALITY

The Company's businesses are highly seasonal. The Company recognizes gross program receipts, revenues and program pass-through expenses upon the departure of the delegates. The majority of the Company's travel programs are scheduled during June through August of each year, and the Company anticipates that this trend will continue for the foreseeable future. Substantially all of the Company's operating income is generated in this period, which historically has offset the operating losses incurred during the rest of the year. The Company's annual results and cash flows would be adversely affected if the Company's revenues were to be substantially below seasonal norms during the second and third quarters of the year. For a more complete discussion of these and other factors, please refer to the Company's Annual Report for the year ended December 31, 2002, on Form 10-K filed with the Securities and Exchange Commission on March 21, 2003.

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LIQUIDITY AND CAPITAL RESOURCES

The Company's business is not capital-intensive. However, the Company does retain funds for operating purposes in order to conduct sales and marketing efforts for future programs and to facilitate acquisitions of other companies.

Net cash (used in) provided by operations for the nine-month periods ended September 30, 2003 and 2002, was \$(1.4) million and \$8.4 million, respectively. The decrease of \$9.8 million in cash flow from operations was primarily due to the timing of receipt of participants' deposits for future program travel resulting from higher enrollments at December 31, 2002 as compared to December 31, 2001.

Net cash used in investing activities for the nine-month periods ended September 30, 2003 and 2002, was \$(9.0) million and \$(0.9) million, respectively. The \$8.1 million increase in cash used was primarily related to net activities with the sale or maturity and purchase of available-for-sale securities.

Net cash provided by (used in) financing activities for the nine-month period ended September 30, 2003 and 2002, was \$0.6 million and \$(10.0) million, respectively. During the first nine months of 2002, concurrent with the spin-off in February 2002, the Company paid a net dividend to Ambassadors of approximately \$10.0 million. As the Company has been a separate entity effective March 1, 2002, no such activities occurred in the first nine months of 2003.

At September 30, 2003, the Company had \$50.0 million of cash, cash equivalents, and available-for-sale securities, including program participant deposits of \$8.0 million. Under the Company's cancellation policy, a program delegate may be entitled to a refund of a portion of his or her deposit, less certain charges, depending on the time of cancellation. Should a greater number of delegates cancel their travel in comparison to that which is customary, due to circumstances such as international or domestic unrest, terrorism, or general economic downturn, the Company's cash balances could be significantly reduced. Cash balances could also be reduced significantly if the financial institutions, which held balances beyond that federally insured, were to become insolvent.

The Company is continuing to pursue further acquisitions of related travel businesses that may require the use of cash and cash equivalents. No such acquisitions are currently pending and no assurance can be given that definitive agreements for any such acquisitions will be entered into, or, if they are entered into, that they will be on terms favorable to the Company.

The Company does not have any material capital expenditure commitments for 2003. Management believes that existing cash and cash equivalents and cash flows from operations will be sufficient to fund the Company's anticipated operating needs, capital expenditures, and acquisitions through the next 12 months of operation.

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TRENDS AND UNCERTAINTIES

The results of operations and financial position of the Company's business may be affected by a number of trends or uncertainties that have, or the Company reasonably expects could have, a material impact on income from continuing operations and cash flows, as well as the balance sheet. Such trends and uncertainties include: the repercussions of the war with Iraq, possible future terrorist acts, and the residual impact of the SARS epidemic. Furthermore, the war with Iraq has affected and will continue to affect the travel industry, as well as the markets in which the Company operates. The potential and long-term effects of the war with Iraq, conflict in the Middle East, and the SARS epidemic result in uncertainties for the Company's customers, the market for the Company's common stock, the markets for the Company's services, the strength of the U.S. dollar and the U.S. economy. The consequences of such trends or events are unpredictable and the Company is not currently able to determine whether the impact will be material or highly material on the Company's business, financial condition, cash flows and results of operations.

FOREIGN CURRENCY; HEDGING POLICY

A majority of the Company's travel programs take place outside of the United States and most foreign suppliers require payment in currency other than the U.S. dollar. Accordingly, the Company is exposed to foreign currency risk relative to changes in foreign currency exchange rates between those currencies and the U.S. dollar. The Company hedges against a significant portion of these foreign currency risks with less than two years maturity. However, the risk of foreign currency exchange rate fluctuation still exists for unhedged payments. If the exchange rate fluctuations became unfavorable relative to the dollar, there is a risk that the Company's gross margins could decline. The Company uses forward contracts that allow the Company to acquire the foreign currency at a fixed price for a specified period of time. Some of the Company's forward contracts may include a synthetic component if a pre-determined trigger occurs during the term of the contract. All of the Company's derivatives are designated as cash-flow hedges of forecasted transactions.

The Company accounts for these foreign-exchange contracts and options in accordance with the provisions of Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities." The statement requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. For qualifying cash-flow hedge transactions in which the Company is hedging the variability of cash flows related to a forecasted transaction, changes in the fair value of the derivative instrument are reported in other comprehensive income. The gains and losses on the derivative instruments that are reported in other comprehensive income are reclassified as earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recognized in current period earnings. Unrealized gains and losses on foreign currency exchange contracts that are not qualifying cash-flow hedges as defined by SFAS 133 are recorded in the statement of operations.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A majority of the Company's travel programs take place outside of the United States and most foreign suppliers require payment in currency other than the U.S. dollar. Accordingly, the Company is exposed to foreign currency risk relative to changes in foreign currency exchange rates between those currencies and the U.S. dollar. The Company has a program to provide a hedge against certain of these foreign currency risks with less than two years maturity. Currently, the U.S. dollar has significantly weakened against the major currencies that the Company pays most foreign suppliers including the Euro dollar, British pound, Australian dollar and New Zealand dollar. If the U.S. dollar continues to weaken against these four major currencies, the Company faces increased costs to travel a delegate abroad and therefore increased pressure on the gross margin (revenue as a percentage of gross program receipts.) The Company is not able to determine whether the impact of the weakening U.S. dollar will be material on the Company's business, financial condition, cash flows and results of operations.

Item 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures: As of September 30, 2003, the end of the period covered by this report, the Company's chief executive officer and its chief financial officer reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)), which are designed to ensure that material information the Company must disclose in its report filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported on a timely basis, and have concluded, based on that evaluation, that as of such date, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's chief executive officer and chief financial officer as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting: In the three months ended, September 30, 2003, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

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**PART II
OTHER INFORMATION**

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 31.1 Certification under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification under Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification under Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification under Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

- (1) The Company filed a report on Form 8-K on July 23, 2003, in connection with the dissemination of an earnings release*.
- (2) The Company filed a report on Form 8-K on October 23, 2003, in connection with the dissemination of an earnings release*.
- (3) The Company filed a report on Form 8-K on November 12, 2003, in connection with the appointment of a new chief financial officer.

* Report containing information that is required to be furnished under Item 12 is not deemed to be “filed” for the purpose of Section 18 of the Securities Exchange Act of 1934 and the Company is not subject to the liabilities of that section. The Company is not incorporating, and will not incorporate by reference this report into a filing under the Securities Act or the Exchange Act.

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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.

AMBASSADORS GROUP, INC.

Date: November 12, 2003

By: /s/ Margaret M. Sestero

Margaret M. Sestero
Chief Financial Officer

EXHIBIT 31.1

Certification required by Rule 13a-14(a) or Rule 15d-14(a) and under Section 302 of the Sarbanes-Oxley Act of 2002.

I, Jeffrey D. Thomas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ambassadors Group, Inc.;
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 officer 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 (the 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 officer 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 the registrant's board of directors (or persons performing the equivalent functions):
 - (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: November 12, 2003.

/s/ Jeffrey D. Thomas
Chief Executive Officer

EXHIBIT 31.2

Certification required by Rule 13a-14(a) or Rule 15d-14(a) and under Section 302 of the Sarbanes-Oxley Act of 2002.

I, Margaret M. Sestero, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ambassadors Group, Inc.;
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 officer 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 (the 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 officer 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 the registrant's board of directors (or persons performing the equivalent functions):
 - (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: November 12, 2003.

/s/ Margaret M. Sestero

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

In connection with the Quarterly Report of Ambassadors Group, Inc., (the "Company") on Form 10-Q for the period ending September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jeffrey D. Thomas, chief executive officer of the Company, certifies, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2003

/s/ Jeffrey D. Thomas

*Jeffrey D. Thomas
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

In connection with the Quarterly Report of Ambassadors Group, Inc., (the "Company") on Form 10-Q for the period ending September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Margaret M. Sestero, chief financial officer of the Company, certifies, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2003

/s/ Margaret M. Sestero

*Margaret M. Sestero
Chief Financial Officer*