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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

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 0-26420

AMBASSADORS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

91-1957010

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

Dwight D. Eisenhower Building

110 S. Ferrall Street

Spokane, WA

(Address of Principal Executive Offices)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:
Common shares outstanding as of May 5, 2004: 10,049,305

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**PART I
FINANCIAL INFORMATION**

Item 1. FINANCIAL STATEMENTS

AMBASSADORS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
March 31, 2004 and December 31, 2003
(dollars in thousands, except share amounts)

	March 31, 2004 (UNAUDITED)	December 31, 2003 AUDITED
ASSETS		
Current Assets:		
Cash and cash equivalents (includes \$12 of restricted cash)	\$ 55,018	\$ 33,653
Available-for-sale securities	43,218	33,872
Foreign currency exchange contracts	4,689	5,209
Prepaid program costs and expenses	8,796	1,608
Other current assets	1,400	233
Total current assets	113,121	74,575
Property and equipment, net	3,375	2,966
Deferred tax asset	1,639	1,664
Other long-term assets	116	116
Total assets	\$ 118,251	\$ 79,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,007	\$ 2,599
Accrued expenses	892	1,836
Participants' deposits	72,709	28,220
Other liabilities	4,032	3,424
Deferred tax liability	1,517	1,690
Current portion of long-term capital lease	145	151
Total current liabilities	80,302	37,920
Long-term capital lease	563	592
Total liabilities	80,865	38,512
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value; authorized, 20,000,000 shares authorized; 10,047,846 and 10,013,967 shares issued and outstanding	100	100
Additional paid-in capital	17,663	17,406
Retained earnings	16,509	19,852
Accumulated other comprehensive income	3,114	3,451
Total stockholders' equity	37,386	40,809
Total liabilities and stockholders' equity	\$ 118,251	\$ 79,321

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

AMBASSADORS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
For the three months ended March 31, 2004 and 2003
(dollars in thousands, except per-share amounts)

	<u>2004</u>	<u>2003</u>
Net Revenues*	\$ 1,260	\$ 1,037
Operating expenses:		
Selling and tour promotion	3,696	2,905
General and administrative	<u>1,162</u>	<u>954</u>
	<u>4,858</u>	<u>3,859</u>
Operating loss	(3,598)	(2,822)
Other income:		
Interest and dividend income	<u>203</u>	<u>222</u>
Loss before income taxes	(3,395)	(2,600)
Income tax benefit	<u>1,154</u>	<u>884</u>
Net loss	<u>\$ (2,241)</u>	<u>\$ (1,716)</u>
Net loss per share – basic and diluted	<u>\$ (0.22)</u>	<u>\$ (0.17)</u>
Weighted-average common shares outstanding - diluted	<u>10,017</u>	<u>9,881</u>
□		
□		

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

*See Management's Discussion and Analysis section on Gross Program Receipts

AMBASSADORS GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
For the three months ended March 31, 2004 and 2003
(dollars in thousands)

□	<u>2004</u>	<u>2003</u>
Net loss	\$ (2,241)	\$ (1,716)
Unrealized (loss) gain on foreign currency exchange contracts, net of income tax benefit (provision) of \$177 and \$(285)	(344)	553
Unrealized gain (loss) on available-for-sale securities, net of income tax (provision) benefit of \$(4) and \$14	<u>7</u>	<u>(17)</u>
Comprehensive loss	<u>\$ (2,578)</u>	<u>\$ (1,180)</u>

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

AMBASSADORS GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the three months ended March 31, 2004 and 2003
(dollars in thousands)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net loss	\$ (2,241)	\$ (1,716)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	236	191
Deferred income tax provision	25	24
Change in assets and liabilities:		
Prepaid program costs and expenses	(7,188)	(3,894)
Accounts payable and accrued expenses	(1,928)	(1,835)
Participants' deposits	44,489	28,396
Other current assets	(1,167)	(870)
Net cash provided by operating activities	<u>32,226</u>	<u>20,296</u>
Cash flows from investing activities:		
Purchase of available-for-sale securities	(14,250)	(6,794)
Proceeds from sale or maturities of available-for- sale securities	4,914	6,617
Purchase of property and equipment	(645)	(41)
Net cash used in investing activities	<u>(9,981)</u>	<u>(218)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	257	92
Dividend payment to shareholders	(1,102)	—
Payment on capital lease	(35)	—
Net provided by (used in) financing activities	<u>(880)</u>	<u>92</u>
Net increase in cash and cash equivalents	21,365	20,170
Cash and cash equivalents, beginning of period	<u>33,653</u>	<u>29,491</u>
Cash and cash equivalents, end of period	<u>\$ 55,018</u>	<u>\$ 49,661</u>

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

AMBASSADORS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF CONSOLIDATION:

Ambassadors Group, Inc. (the "Company") is a leading educational travel company that organizes and promotes international and domestic educational travel and sports programs for youth, athletes and professionals.

Beginning March 1, 2002, the Company operated as an independent stand-alone company. Prior to February 28, 2002, the Company was a wholly owned subsidiary of Ambassadors International, Inc. ("International").

On January 25, 2002, the board of directors of International approved the distribution of all of the Company's common stock to International's stockholders ("the spin-off"). The International Board of Directors declared a dividend of the Company's common stock to the International's 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 International common stock. The distribution of common stock was intended to be tax-free to the Company and to its stockholders, and International 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 its parent, International.

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 for the years ended December 31, 2001 and 2000, and as of December 31, 2001, have been retroactively adjusted for the stock split.

Prior to the spin-off from International, the Company transferred approximately \$20.5 million in cash to International as a dividend. The dividends per share were \$2.78 in 2001. Additionally, prior to the spin-off, International 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, the Company entered into agreements with International that separated the Company's business operations from International. These agreements also govern ongoing relationships. During 2002, prior to its spin-off from International and pursuant to the Master Separation and Distribution Agreement, the Company paid to International a cash dividend approximating \$2.08 per outstanding share. International also contributed to the Company a capital contribution approximating \$10.4 million.

2. LOSS PER SHARE:

Net loss per share – basic - is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Net loss per share – diluted - is computed in the same manner as net loss per share – basic, but includes additional common shares that would have been outstanding if the dilutive potential common shares had been issued. However, due to the net loss during the quarters ended March 31, 2004 and 2003, such shares have been excluded from the computation, as they are anti-dilutive.

The following table presents a reconciliation of basic and diluted earnings per share (EPS) computations and the number of dilutive securities (stock options) that were not included in the dilutive EPS calculation because they were anti-dilutive (in thousands, except per-share amounts):

	<u>2004</u>	<u>2003</u>
Numerator:		
Net loss for basic and diluted earnings per share	<u>\$ (2,241)</u>	<u>\$ (1,716)</u>
Denominator:		
Weighted-average shares outstanding - basic	10,017	9,881
Effect of dilutive common stock options (A)	<u>(A)</u>	<u>(A)</u>
Weighted-average shares outstanding - diluted	<u>10,017</u>	<u>9,881</u>
Net loss per share - diluted	<u>\$ (0.22)</u>	<u>\$ (0.17)</u>

(A) For the three months ended March 31, 2004 and 2003, the effects of approximately 386,000 and 149,000 stock options, respectively, have been excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

3. STOCK INCENTIVE PLAN:

The Company has adopted the disclosure-only provisions of SFAS No. 123 and as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Accordingly, no compensation expense has been recognized in the first quarter of 2004 and 2003 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 loss and net loss per share amounts for the quarter ended March 31, 2004 and 2003, would have been changed to the pro forma amounts indicated below (in thousands except per share data):

	<u>2004</u>	<u>2003</u>
Net loss as reported	\$ (2,241)	\$ (1,716)
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(71)</u>	<u>(95)</u>
Pro forma net loss	<u>\$ (2,312)</u>	<u>\$ (1,811)</u>
Pro forma net loss per share – basic and diluted	<u>\$ (0.23)</u>	<u>\$ (0.18)</u>

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

Statements contained in this Quarterly Report on Form 10-Q of Ambassadors Group, Inc. (the "Company"), which are not historical in nature, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," regarding intent, belief or current expectations of the Company or its officers with respect to, among other things, trends in the travel industry, the Company's business and growth strategies, the Company's use of technology, the Company's ability to integrate acquired businesses, and fluctuations in the Company's results of operations.

Forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from anticipated results. These risks and uncertainties include factors affecting the travel industry generally, competition, the ability of the Company to successfully integrate the operations of existing or acquired companies, and a variety of factors such as war with Iraq, conflict in the Middle East, periods of international unrest, the outbreak of disease, changes in the direct-mail environment, recession, weather conditions and concerns for passenger safety that could cause a decline in travel demand, as well as the risk factors, and other factors as may be identified from time to time in the Company's filings with the Securities and Exchange Commission or in the Company's press releases. For a more complete discussion of these risks, please refer to Item 1 Business – Risk Factors disclosure in the Company's Form 10-K filed on March 12, 2004.

OVERVIEW

The Company is a leading educational travel company that organizes and promotes international and domestic programs for students, athletes, and professionals. Youth programs provide opportunities for middle and high school students to learn about the history, government, economy and culture of the foreign and domestic destinations they visit as well as for middle and high school athletes to participate in international sports challenges. The Company's professional programs emphasize meetings and seminars between delegates and persons in similar professions abroad.

The Company was founded in 1967 and was reincorporated in Delaware in 1995, when it was purchased and consolidated with Ambassadors International, Inc. ("International"). Prior to February 28, 2002, the Company was a wholly owned subsidiary of International. Beginning March 1, 2002, the Company operated as an independent stand-alone company.

On January 25, 2002, the board of directors of International approved the distribution of all of the Company's common stock to International's stockholders (the "spin-off"). The International Board of Directors declared a dividend of the Company's common stock to the International's 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 International common stock. The distribution of common stock was intended to be tax-free to the Company and to its stockholders, and International 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 International.

STRATEGY

The Company believes that high quality programs and exceptional customer service are and will remain key elements of its success. The Company's strategy is to maintain quality standards while increasing the volume of business. To grow the business, the Company intends to (i) expand the marketing efforts and travel volume of existing student, sports and conference educational travel programs, (ii) introduce new student, sport and conference travel programs independently and through strategic alliances, (iii) broaden professional travel programs, and (iv) pursue acquisition opportunities.

OPERATIONS

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, and utilize similar processes for program marketing.

The Company conducts business operations from the proceeds of gross program receipts. Gross program receipts reflect total payments received by the Company. Gross program receipts less program pass-through expenses constitute the Company's revenues. Program pass-through expenses include all direct costs associated with the Company's programs, including but not limited to costs related to airfare, hotels, meals, ground transportation, guides, professional exchanges, and changes in currency exchange rates. The

Company recognizes gross program receipts, pass-through expenses and revenues upon the departure of the program. Operating expenses, which are expensed by the Company as incurred, are the costs related to the creation of programs, promotional materials and marketing costs, salaries, rent, other general and administrative expenses and all of the Company's ordinary expenses. The Company's policy is to obtain payment for substantially all travel services prior to entering into commitments for incurring expenses relating to such travel.

RISKS AND TRENDS

Risks Relating to the Company's Business

War with Iraq

The war with Iraq has affected and will continue to affect the travel industry, the markets in which the Company operates, and the Company's operations and profitability. The potential and long-term effects are uncertain 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 Company has experienced increased cancellations for its future travel programs and a weakened U.S. dollar. The negative effect of a weakened U.S. dollar will cost the Company more to travel participants abroad. The repercussions of the war with Iraq are unpredictable and the Company may not be able to foresee events that may have a material adverse affect on the business, financial condition, cash flows and results of operations of the Company.

Terrorism

Terrorist attacks, such as the attacks that occurred on September 11, 2001; the response by the United States; and other acts of violence or war have and will affect the travel industry generally, the markets in which the Company operates, as well as the Company's operations and profitability. Further terrorist attacks against the United States or U.S. businesses at home and abroad may occur. The September 11 attacks have had a very negative impact on domestic and international air travel and the travel industry in general. As a result, the Company experienced a significant decrease in profitability in 2002. The potential near-term and long-term effects of these attacks are uncertain for the Company's customers, the market for the Company's common stock, the markets for our services and the U.S. economy. The consequences of any terrorist attacks, or any armed conflicts including war which may result, are unpredictable, and the Company may not be able to foresee events that could have an adverse affect on its business or operations.

International Operations and Natural Occurrences; Travel Industry

The Company's operations are subject to special risks inherent in doing business internationally, as substantially all of the Company's travel programs are conducted outside the United States. Such risks include the adverse effects on operations from war, international and domestic terrorism, civil disturbances, political instability, governmental activities and deprivation of contract rights. Periods of international and domestic unrest have reduced demand for the Company's travel programs and could have a material adverse effect on the Company's business and results of operations. Examples of such past events include the attacks on September 11, 2001, the Gulf War in 1991, civil unrest in China in 1989 and the Chernobyl disaster in 1986.

In the past, gross receipts from programs to Europe, the South Pacific (Australia and New Zealand) and China have accounted for a majority of the Company's gross receipts. The occurrence of any of the events described above or other unforeseen developments in one or more of these regions would have a material adverse effect on the Company. Demand for the Company's travel programs also may be adversely affected by natural occurrences such as hurricanes, earthquakes, epidemics such as the SARS virus, and flooding in geographic regions in which the Company conducts its travel programs.

The Company's results of operations will depend upon factors affecting the travel industry in general. The Company's revenues and earnings are especially sensitive to events that affect domestic and international air travel and the level of hotel reservations. A number of factors, including those mentioned above, a rise in fuel prices or other travel costs, excessive inflation, currency fluctuations, extreme weather conditions and concerns about passenger safety could result in a temporary or longer-term overall decline in demand for the Company's travel programs. Demand for the Company's products and services may be significantly affected by the general level of economic activity and employment in the United States and key international markets. Therefore, any significant economic downturn or recession in the United States or these other markets could have a material adverse affect on the business, financial condition, cash flows and results of operations of the Company.

Seasonality; Fluctuations in Quarterly Results

The Company's programs are highly seasonal. The Company recognizes gross program receipts, revenues and program pass-through expenses upon the departure of its program delegates. The majority of the Company's travel programs are scheduled in June and July 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 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. The Company's operating results may fluctuate as a result of many factors, including the mix of student, sports, and professional programs and program destinations offered by the Company and its competitors, the introduction and acceptance of new programs and program enhancements by the Company and its competitors, timing of program completions, cancellation rates, competitive conditions in the industry, marketing expenses, extreme weather conditions, international or domestic conflicts, timing of and costs related to acquisitions, changes in relationships with certain travel providers, economic factors and other considerations affecting travel. In addition, the Company records on a quarterly basis realized gains and losses on its forward foreign exchange contracts that do not qualify as cash flow hedges under Statement of Financial Accounting Standards No. 133. As a result of the foregoing, annual or quarterly operating results may be below the expectations of public market analysts and investors. In such event, the price of the common stock could be materially and adversely affected.

Competition

The travel industry in general and the educational segment of the travel industry is highly competitive and has relatively low barriers to entry. The Company competes with other companies that provide similar educational travel programs for students and athletes as well as independent programs organized and sponsored by local teachers and coaches with the assistance of local travel agents. People to People International, under the terms of its agreement with the Company, reserves the right to offer programs to college students for studies abroad and to grant other entities which compete with the Company the right to use the People to People name in connection with People to People's professional education and sports programs. In general, the Company's professional travel programs compete with independent professional organizations that sponsor and organize their own travel programs through the assistance of local travel agents, and other organizations that offer travel programs for adults. Some of the Company's competitors are larger and have greater brand name recognition and financial resources than the Company. There can be no assurance that the Company will be able to compete successfully, and the failure to compete successfully may have a material adverse affect on the business, financial condition, cash flows and results of operations of the Company.

Dependence on "People to People"

The Company's agreements with People to People International give the Company the exclusive right to develop and conduct programs for kindergarten through high school students using the People to People name, and the non-exclusive right to develop and conduct programs for professionals, college students, and athletes using the People to People name. The Company's agreements with People to People International, however, allow People to People International to continue to conduct college and professional seminars and internship programs and to develop other sports and professional programs. The People to People International agreements expire in 2010 and, at the election of the Company, may be further extended through 2020. The Company believes that it derives benefit from its ability to market its programs using the People to People name. If the Company's agreements with People to People International were terminated or if the Company was unable to use the People to People name to market new programs or destinations, it could have a material adverse affect on the Company's business, financial condition, cash flows and results of operations.

Dependence on Travel Suppliers

The Company is dependent upon travel suppliers for access to their products and services. Travel suppliers include airlines, hotels, bus lines and other participants in the travel industry. Consistent with industry practices, the Company currently has no long-term agreements with its travel suppliers that obligate such suppliers to sell services or products through the Company on an ongoing basis. Therefore, the Company's travel suppliers generally can cancel or modify their agreements with the Company upon relatively short notice. In addition, any decline in the quality of travel products and services provided by these suppliers, or a perception by travelers of such a decline, could adversely affect the Company's reputation. The loss of contracts, changes in the Company's pricing agreements, commission schedules or incentive override commission arrangements, more restricted access to travel suppliers' products and services or less favorable public opinion of certain travel suppliers and resulting low demand for the products and services of such travel suppliers could have a material adverse affect on the business, financial condition, cash flows and results of operations of the Company.

Dependence on Key Personnel

The Company's performance is substantially dependent on the continued services and performances of its senior management and certain other key personnel. The loss of the services of any of its executive officers or other key employees could have a material adverse affect on the Company's business, financial condition and results of operations. The Company does not have long-term employment agreements with any of its executive officers. The Company's future success also depends on its ability to identify, attract, hire, train, retain and motivate other highly skilled managerial, marketing and customer service personnel. The failure to retain and attract necessary managerial, marketing and customer service personnel could have a material adverse affect on the Company's business, financial condition, cash flows and results of operations.

Marketing

The Company's performance is substantially dependent on effectiveness of its direct marketing efforts including but not limited to direct mail and local informational meetings. Failure of its marketing efforts or changes in the direct mail environment could have a material adverse affect on the Company's business, financial condition, cash flows and results of operations. Such changes in the direct mail environment could include, but not be limited to, a threat of disease or bioterrorism within the mail environment and new or different regulatory schemes or changes in costs or services by the United States Postal Service.

Government Regulation and Taxation

Many travel suppliers, particularly airlines, are subject to extensive regulation by federal, state and foreign governments. In addition, the travel industry is subject to certain seller of travel laws of certain states and special taxes by federal, state, local and foreign governments, including hotel bed taxes, car rental taxes, airline excise taxes and airport taxes and fees. New or different regulatory schemes or changes in tax policy could have an adverse impact on the travel industry in general and could have a material adverse affect on the business, financial condition, cash flows and results of operations of the Company.

Fluctuation of Currency Exchange Rates: Increased Costs

Many of the Company's arrangements with its foreign-based suppliers require payment to be made in foreign currencies. Any decrease in the value of the U.S. dollar in relation to foreign currencies has the effect of increasing the cost of the services to be provided. Since late 1993, the Company generally has purchased forward contracts with less than two years maturity to help manage program costs and hedge against foreign currency valuation increases. While the ability to utilize forward contracts for the delivery of foreign currencies can mitigate the effect of increased program costs and foreign currency exchange fluctuations, there can be no assurance that increased program costs relating to such currency fluctuations will not be substantial in future periods. There can also be no assurance the Company's hedging strategy will mitigate longer term foreign exchange valuation trends. The Company's contract with delegates in its travel programs provides the Company the option of passing along to delegates any increase in program costs resulting from currency fluctuations. Although the Company has exercised this option in the past, there can be no assurance that the Company will be able to increase program prices to offset any such cost increases in the future and any failure to do so could have a material adverse affect on the Company's business, financial condition, cash flows and results of operations.

Casualty Losses

Due to the nature of its business, the Company may be subject to liability claims arising out of accidents or disasters causing injury to delegates in its programs, including claims for serious personal injury or death. The Company believes that it has adequate liability insurance for risks arising in the normal course of its business. Although there have been no claims the Company has experienced for which it did not have adequate insurance coverage, there can be no assurance that insurance coverage will be sufficient to cover one or more large claims or that the applicable insurer will be solvent at the time of any covered loss. Further, there can be no assurance that the Company will be able to obtain insurance coverage at acceptable levels and cost in the future. Successful assertion against the Company of one or a series of large uninsured claims, or of one or a series of claims exceeding any insurance coverage, could have a material adverse affect on the Company's business, financial condition, cash flows and results of operations.

Growth, Acquisitions and Alliances

The Company's performance is dependent on its ability to grow its business and expand the marketing and travel volume of its youth, sports and professional travel programs. In addition, the Company's ability to grow is dependent on ability to acquire or enter into strategic alliances. Failure of growth strategies could have a material adverse affect on the Company's business, financial condition, cash flows and results of operations.

Control of the Company by Certain Stockholders

As of December 31, 2003, John Ueberroth, Joseph Ueberroth and Peter Ueberroth (all family members) beneficially owned in the aggregate approximately 19 percent of the outstanding shares of the Company's common stock. Accordingly, they have the ability to exercise effective voting control of the Company, and may elect all of the Company's directors and be able to determine the outcome of any matter being voted upon by the Company's stockholders, including any merger, sale of assets or other change in control of the Company. The Ueberroths' ownership position, together with the anti-takeover effects of certain provisions contained in the Company's Certificate of Incorporation and Bylaws, may have the effect of delaying or preventing a change of control of the Company.

Availability of Future Financing

The Company believes that its capital requirements will vary from quarter to quarter, depending on, among other things, capital expenditures, fluctuations in operating results, financing activities, acquisitions, investments and receivables management. The Company believes that its future cash flow from operations will be sufficient to satisfy its working capital, capital expenditure and product development requirements for the foreseeable future. However, the Company may require or choose to obtain additional debt or equity financing in order to finance acquisitions or other investments in its business. Future equity financings would be dilutive to the existing holders of the Company common stock. Future debt financings could involve restrictive covenants. There can be no assurance that the Company will be able to obtain financing with favorable interest rates or that the Company will be able to obtain financing at all.

Risks Relating to the Separation of the Company from International

Indemnification of International for Tax Liabilities Incurred in Connection With the Distribution

In connection with the Distribution, the Company and International entered into a tax sharing agreement pursuant to which the Company agreed to indemnify International for certain taxes and similar obligations that it would incur if the Distribution does not qualify for tax-free treatment due to any of the following events:

- the acquisition of a controlling interest in the Company stock after the Distribution;
- the Company's failure to continue its business after the Distribution;
- a repurchase of the Company stock; or
- other acts or omissions by the Company.

International agreed to indemnify the Company for any tax liabilities the Company incurs as a result of its operations and International's operations prior to the Company's separation from International. Nevertheless, the Company may be held jointly and severally liable for such liabilities, and it cannot make any assurances that it will be able to recover from International any losses it may

suffer. If the Company takes any action or fails to take any action that would cause International's distribution of the Company's common stock to be taxable to International, the Company's financial condition could be seriously harmed.

□

Company's Officers and Directors May Have Conflicts of Interest Due to Their Ownership of International Common Stock

Many of the Company's directors and executive officers own substantial amounts of International common stock and options to purchase International common stock. Ownership of International common stock by the Company's directors and officers may create, or appear to create, potential conflicts of interest when directors and officers are faced with decisions that could have different implications for International and the Company.

Company's Directors May Have Conflicts of Interest Due to Their Dual Service as Directors of International

All but two of the Company's directors also serve as directors (and in one instance an executive officer) of International. Whenever a director of the Company serves as an executive officer or director of another entity such as International, there is the potential for a conflict of interest, in that the fiduciary obligations of an individual to International conflict with the fiduciary obligations to the Company and vice versa. Involvement by these same individuals in the affairs of International specifically creates demands on their time and resources, which may be needed for the Company and its affairs. The Company's directors resolve all conflicts in accordance with their fiduciary duties and utilize an audit committee to approve all related party transactions as required by Nasdaq Marketplace Rules.

Risks Relating to the Securities Markets and Ownership of the Company Common Stock

Fluctuations in Stock Price

The market price of the Company's common stock could be subject to significant fluctuations. Among the factors that could affect the Company's stock price are:

- quarterly variations in operating results;
- changes in revenue or earnings estimates or publication of research reports by analysts;
- speculation in the press or investment community;
- strategic actions by the Company or its competitors, such as acquisitions or restructurings;
- actions by institutional stockholders;
- general market conditions;
- domestic and international economic factors unrelated to the Company's performance; and
- limited shares of common stock available for trading

The stock markets have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of the Company's common stock. In particular, the Company cannot make assurances that its stock will sell at any particular price, or at all.

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 generally accepted accounting principles 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 Company's Annual Report on Form 10-K for the year ended December 31, 2003.

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COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2004, TO THE THREE MONTHS ENDED MARCH 31, 2003

GROSS PROGRAM RECEIPTS

Gross program receipts reflect total payments received by the Company. Gross program receipts less program pass-through expenses constitute the Company's revenues. Program pass-through expenses include all direct costs associated with the Company's programs, including but not limited to costs related to airfare, hotels, meals, ground transportation, guides, professional exchanges, and changes in currency exchange rates.

Quarter ended	<u>March 31, 2004</u>	<u>March 31, 2003</u>
	\$4.1 million	\$2.6 million

Gross program receipts increased by approximately \$1.5 million in the first quarter of 2004. The increase is primarily due to traveling approximately 1,000 more delegates.

NET REVENUE/Gross Margin %

Quarter ended	<u>March 31, 2004</u>	<u>March 31, 2003</u>
	\$1.3 million/31%	\$1.0 million/40%

Net revenue increased by approximately \$0.3 million in the first quarter of 2004. The effect of traveling more delegates in the first quarter of 2004, was offset by a decrease in gross margin percentage (net revenue as a percentage of gross program receipts) from first quarter 2004 compared to 2003. The decrease in gross margin percentage in the first quarter of 2004 compared to the first quarter of 2003 resulted primarily because of increased costs associated with securing additional capacity to travel more delegates in the quarter than the company expected. Also contributing to the decreased gross margin percentage was a weaker U.S. dollar that resulted in increased international travel costs. The gross margin percentage in the first quarter 2003 included a vendor rebate of approximately \$0.2 million. Excluding the vendor rebate, the company's gross margin percentage was approximately 35%.

SELLING AND TOUR PROMOTION EXPENSES

Quarter ended	<u>March 31, 2004</u>	<u>March 31, 2003</u>
	\$3.7 million	\$2.9 million

Selling and tour promotion expenses increased primarily from increased marketing expenditures related to new programs and existing international programs. Also contributing to the increase were additional personnel costs associated with supporting an expanded enrolled delegate base expected to travel in 2004.

GENERAL AND ADMINISTRATIVE EXPENSES

Quarter ended	<u>March 31, 2004</u>	<u>March 31, 2003</u>
	\$1.2 million	\$1.0 million

General and administrative expenses increased because of additional personnel costs associated with supporting an expanded enrolled delegate base expected to travel in 2004.

OTHER INCOME

Quarter ended	<u>March 31, 2004</u>	<u>March 31, 2003</u>
	\$0.2 million	\$0.2 million

Other income consists primarily of interest income generated by cash, cash equivalents and available-for-sale securities. Interest income was comparable quarter over quarter despite higher levels of cash balances quarter over quarter. This resulted from primarily earning a lower rate of return in the first quarter of 2004 of 1.4% compared to the first quarter of 2003 of 1.8%.

INCOME TAX BENEFIT

Quarter ended	<u>March 31, 2004</u>	<u>March 31, 2003</u>
	\$1.2 million	\$0.9 million

The income tax benefit has been recorded based upon the estimated annual effective income tax rate of 34% applied to the pre-tax income as of the quarters ended.

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 provided by operations for the first quarter ended March 31, 2004 and 2003, was \$32.2 million and \$20.3 million, respectively. The increase of \$11.9 million in cash flow from operations was primarily related to an increase in participants' deposits for future travel programs offset by an increase in prepaid program costs and expenses.

Net cash used in investing activities for the first quarter ended March 31, 2004 and 2003, was \$10.0 million and \$0.2 million, respectively. The \$9.8 million increase was primarily related to net activities with the purchase of available-for-sale securities.

Net cash (used in) provided by financing activities for the first quarter ended March 31, 2004 and 2003, was \$(0.9) million and \$0.1 million, respectively. The use of cash in the first quarter of 2004 was primarily for the payment of a dividend of \$0.11 per share to the Company's shareholders.

The Company does not have any material capital expenditure commitments for 2004. For a more complete discussion of these and other contractual factors, please refer to the Company's Form 10-K for the year ended December 31, 2003.

At March 31, 2004, the Company had \$98.2 million of cash, cash equivalents, and available-for-sale securities, including program participant funds of \$72.7 million. Deployable cash *(see definition in table below) as of March 31, 2004 and 2003 was \$28.2 million and \$20.4 million, respectively. Under the Company's cancellation policy, a program participant 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 participants cancel their travel in comparison to that to which the company is accustomed, 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 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.

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 2004.

	UNAUDITED	
	March 31, 2004	March 31, 2003
Cash, cash equivalents and available-for-sales equivalents	\$ 98,224	\$ 71,704
Prepaid program cost and expenses	8,796	5,410
Less: Participants' deposits	(72,709)	(54,297)
Less: Accounts payable/accruals/other liabilities	(6,076)	(2,406)
Deployable cash	<u>\$ 28,235</u>	<u>\$ 20,411</u>

* - Deployable cash is a non-GAAP (generally accepted accounting principles) liquidity measure. Deployable cash is calculated as the sum of cash and cash equivalents, available for sale securities and prepaid program costs and expenses less the sum of accounts payable, accrued expenses and other short-term liabilities (excluding deferred taxes), participant deposits and the current portion of long-term capital lease. Management believes this non-GAAP measure is useful to investors in understanding the cash available to deploy for future business opportunities and is presented as supplementary information to enhance the readers understanding of, and highlight trends in, the Company's financial position. Any non-GAAP financial measure used by the Company should not be considered in isolation or as a substitute for measures of performance or liquidity prepared in accordance with GAAP.

FOREIGN CURRENCY; HEDGING POLICY

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A substantial 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. 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 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.

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 March 31, 2004, 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, March 31, 2004, 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.

PART II
OTHER INFORMATION

Item 5. 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 February 10, 2004, in connection with the dissemination of an earnings release*.

* Report containing information that is required to be furnished under Item 12 was instead furnished under Item 9 in accordance with Securities and Exchange Commission Release No. 33-8176. Pursuant to General Instruction B of Form 8-K and SEC Release No. 33-8176, the report submitted under Item 9 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.

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: May 10, 2004

By: /s/ COLLEEN MCCANN-LILLIE

Colleen McCann-Lillie
Chief Financial Officer

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: May 10, 2004.

/s/ Jeffrey D. Thomas
Chief Executive Officer

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

I, Colleen McCann-Lillie, 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: May 10, 2004

/s/ Colleen McCann Lillie
Chief Financial Officer

**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: May 10, 2004

/s/ Jeffrey D. Thomas

Jeffrey D. Thomas
Chief Executive Officer

**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: May 10, 2004

/s/ Colleen McCann-Lillie

Colleen McCann-Lillie
Chief Financial Officer