

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 June 30, 2005

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 Rule 12b-2 of the Exchange Act).

- Yes
- No

The number of shares of the registrant's Common stock outstanding as of August 1, 2005 was 10,223,711.

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AMBASSADORS GROUP, INC.  
FORM 10-Q QUARTERLY REPORT

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

AMBASSADORS GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(dollars in thousands, except share amounts)

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (includes \$12 of restricted cash)	\$ 34,092	\$ 11,036
Available-for-sale securities	86,990	76,521
Foreign currency exchange contracts	-	2,609
Prepaid program costs and expenses	41,063	2,461
Deferred tax asset	735	-
Accounts receivable	309	123
Total current assets	<u>163,189</u>	<u>92,750</u>
Property and equipment, net	4,765	3,911
Deferred tax asset	685	735
Other long-term assets	125	120
Total assets	<u>\$ 168,764</u>	<u>\$ 97,516</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 12,588	\$ 1,390
Accrued expenses	6,641	2,887
Foreign currency exchange contracts	1,536	-
Participants' deposits	87,473	38,608
Other liabilities	3,303	3,806
Deferred tax liability	-	723
Current portion of long-term capital lease	175	147
Total current liabilities	<u>111,716</u>	<u>47,561</u>
Long-term capital lease	478	454
Total liabilities	<u>112,194</u>	<u>48,015</u>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$.01 par value; authorized, 50,000,000 and 20,000,000 shares authorized; 10,186,808 and 10,125,841 shares issued and outstanding at June 30, 2005 and December 31, 2004	101	101
Additional paid-in capital	18,018	18,288
Retained earnings	40,840	30,869
Unearned restricted stock compensation	(1,297)	(1,402)
Accumulated other comprehensive income (loss)	(1,092)	1,645
Total stockholders' equity	<u>56,570</u>	<u>49,501</u>
Total liabilities and stockholders' equity	<u>\$ 168,764</u>	<u>\$ 97,516</u>

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

AMBASSADORS GROUP, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(dollars in thousands, except per-share amounts)

	Six Months ended June 30,		Three months ended June 30,	
	2005	2004	2005	2004
Net revenues*	\$ 31,871	\$ 27,114	\$ 29,693	\$ 25,854
Operating expenses:				
Selling and tour promotion	11,430	8,817	5,918	5,031
General and administrative	2,791	2,320	1,654	1,248
	14,221	11,137	7,572	6,279
Operating income	17,650	15,977	22,121	19,575
Other income:				
Interest and dividend income	1,245	505	770	302
Income before income taxes	18,895	16,482	22,891	19,877
Income tax provision	6,283	5,604	7,642	6,758
Net income	\$ 12,612	\$ 10,878	\$ 15,249	\$ 13,119
Net income per share — basic	\$ 1.25	\$ 1.08	\$ 1.51	\$ 1.31
Weighted-average common shares outstanding — basic	10,109	10,033	10,126	10,049
Net income per share — diluted	\$ 1.19	\$ 1.04	\$ 1.44	\$ 1.26
Weighted-average common shares outstanding — diluted	10,621	10,415	10,621	10,423

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

\* See Management's Discussion and Analysis of Financial Condition and Results of Operations for Gross Program Receipts.

AMBASSADORS GROUP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)  
(dollars in thousands)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
Net income	\$12,612	\$10,878	\$15,249	\$13,119
Unrealized loss on foreign currency exchange contracts, net of income tax benefit of \$1,410, \$97, \$1,328, and \$188	(2,736)	(3,109)	(2,577)	(2,766)
Unrealized gain (loss) on available-for-sale securities, net of income tax benefit (provision) of \$-, \$55, \$(32), and \$47	(1)	(85)	63	(92)
Comprehensive income	\$ 9,875	\$ 7,684	\$12,735	\$10,261

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

AMBASSADORS GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(dollars in thousands)

	Six Months Ended June 30,	
	2005	2004
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,612	\$ 10,878
Adjustments:		
Depreciation	495	470
Amortization of unearned compensation	193	-
Deferred income tax provision	-	61
Change in assets and liabilities:		
Prepaid program costs and expenses	(38,602)	(26,069)
Accounts payable and accrued expenses	14,449	16,089
Participants' deposits	48,865	34,184
Other current assets	(186)	(306)
Net cash provided by operating activities	37,826	35,307
<b>Cash flows from investing activities:</b>		
Net change in available-for-sale securities	(10,469)	(27,196)
Purchase of property and equipment and other	(1,354)	(1,245)
Net cash used in investing activities	(11,823)	(28,441)
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	1,389	385
Dividend payment to shareholders	(2,641)	(2,208)
Proceeds from (payment on) capital lease	52	(71)
Payment of stock repurchased	(1,747)	(680)
Net cash used in financing activities	(2,947)	(2,574)
Net increase in cash and cash equivalents	23,056	4,292
Cash and cash equivalents, beginning of period	11,036	11,785
Cash and cash equivalents, end of period	\$ 34,092	\$ 16,077

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 Presentation:**

Ambassadors Group, Inc. is a leading educational travel company that organizes and promotes international and domestic educational travel and sports programs for youth, athletes and professionals. These consolidated financial statements include the accounts of Ambassadors Group, Inc. and our wholly owned subsidiaries, Ambassador Programs, Inc., Ambassadors Specialty Group, Inc., and Ambassadors Unlimited, LLC. All significant intercompany accounts and transactions are eliminated in consolidation.

In our opinion, the consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our financial position at June 30, 2005 and December 31, 2004 and our results of operations and cash flows for the three and six months ended June 30, 2005 and 2004.

**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 and the number of dilutive securities (stock options and grants) that were not included in the dilutive EPS calculation because they were anti-dilutive (in thousands, except per-share amounts):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
<b>Numerator:</b>				
Net income for basic and diluted earnings per share	\$ 12,612	\$ 10,878	\$ 15,249	\$ 13,119
<b>Denominator:</b>				
Weighted-average shares outstanding – basic	10,109	10,033	10,126	10,049
Effect of dilutive common stock options	467	382	449	374
Effect of dilutive common stock grants	45	-	46	-
Weighted average shares outstanding – diluted	10,621	10,415	10,621	10,423
Net income per share – basic	\$ 1.25	\$ 1.08	\$ 1.51	\$ 1.31
Net income per share - diluted	\$ 1.19	\$ 1.04	\$ 1.44	\$ 1.26

For the three and six months ended June 30, 2004, the effects of approximately 30,000 stock options have been excluded from the calculation of diluted earnings per share because their effect would be anti-dilutive. No stock options have been excluded from the calculation of diluted earnings per share during the three and six months ended June 30, 2005, as the market price exceeded the grant price of options outstanding on that date.

### 3. Stock Incentive Plan:

We adopted the disclosure-only provisions of the Statement of Financial Accounting Standards (“SFAS”) No. 123 and as amended by SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure.” For disclosure purposes, we have chosen to measure compensation cost for stock-based employee compensation plans using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees.” Accordingly, no compensation expense was recognized in the six and three months ended June 30, 2005 and 2004 for unexercised options related to the stock option plan. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model and had compensation cost for our stock option plan been recognized, our net income per share amounts for the six and three months ended June 30, 2005 and 2004, would have been changed to the pro forma amounts indicated below (in thousands except per share data):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
Net income as reported	\$ 12,612	\$ 10,878	\$ 15,249	\$ 13,119
Add: Stock-based employee compensation expense for stock grants, included in reported net income, net of related tax effects	129	-	68	-
Deduct: stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(308)	(158)	(179)	88
Pro forma net income	\$ 12,433	\$ 10,720	\$ 15,138	\$ 13,031
Earnings per share:				
Basic – as reported	\$ 1.25	\$ 1.08	\$ 1.51	\$ 1.31
Basic – pro forma	\$ 1.23	\$ 1.07	\$ 1.49	\$ 1.30
Diluted – as reported	\$ 1.19	\$ 1.04	\$ 1.44	\$ 1.26
Diluted – pro forma	\$ 1.17	\$ 1.03	\$ 1.43	\$ 1.25

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

*The following discussion should be read in conjunction with the selected consolidated financial data and our consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q.*

*Statements contained in this Quarterly Report on Form 10-Q, 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 our Company or our officers with respect to, among other things, trends in the travel industry, business and growth strategies, use of technology, ability to integrate acquired businesses, and fluctuations in 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, our ability to successfully integrate the operations of existing or acquired companies, and a variety of factors such as continuing U.S. military deployment in 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 our Securities and Exchange Commission filings or in our press releases. For a more complete discussion of these risks, please refer to Item 1 "Business — Risk Factors" disclosure in our Form 10-K filed on March 14, 2005, along with those risks identified under "Factors That May Affect Operating Results" and included in this Quarterly Report.*

*In this Quarterly Report on Form 10-Q, the terms "Company," "we," "us," and "our" refer to Ambassadors Group, Inc.*

### **Overview**

Ambassadors Group, Inc. is a leading educational travel company that organizes and promotes international and domestic programs for students, athletes and professionals, primarily using the People to People name. People to People International ("People to People") is a private, non-profit organization dedicated to the promotion of world peace through cultural exchange.

We have the exclusive right to develop and conduct student programs for kindergarten through high school students using the People to People name. We also have the non-exclusive right to develop, market and operate programs for professionals, college students and athletes using the People to People name. However, at the present time, we are the only entity that has been given this right by People to People. These rights, granted pursuant to agreements with People to People, expire in 2010 and, at our election, may be extended through 2020.

Our business consists of several specialized private-label educational travel programs, including Student Ambassador Programs, Sports Ambassador Programs, Conference Programs, and Professional Ambassador Programs. Student Ambassador Programs provide opportunities for grade school, middle school and high school students to learn about the history, government, economy and culture of the foreign and domestic destinations they visit. People to People Sports Ambassadors, for middle and high school athletes, provides the opportunity to participate in international sports competitions as well. Our Conference Programs provide educational opportunities for middle school and high school students to learn leadership, government, college admissions and community involvement skills at various domestic destinations. Our Professional Ambassador Programs emphasize meetings and seminars between delegates and persons in similar professions abroad.

We were founded in 1967, were reincorporated in Delaware in 1995, and operated as Ambassadors Education Group, a wholly owned subsidiary of Ambassadors International, Inc. until February 2002, at which time we spun off to operate as an independent stand-alone company beginning in March, 2002. Since then, our Common Stock has traded on the Nasdaq National Market under the ticker symbol "EPAX."

### ***Strategy***

We believe our long experience, high quality programs and exceptional customer service are and will remain key elements of our success. Our strategy is to maintain quality standards while increasing the volume of business. To grow the business, we intend to (i) expand the marketing efforts and travel volume of existing student, sports, conference, and professional educational travel programs, (ii) introduce new student, sport, conference and professional travel programs independently and through strategic alliances, (iii) broaden professional travel programs, and (iv) selectively pursue strategic alliance opportunities.

### ***Operations***

Our business is highly seasonal, as the majority of travel programs are scheduled during June and July each year. We are comprised of a single operating segment consisting of 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.

### ***Our Gross Program Receipts and Accounting Structure***

Gross program receipts reflect total payments received by us. Gross program receipts less program pass-through expenses constitute our revenues. Due to the nature of these gross receipts and pass-through expenses, we report on a net revenue basis in our Consolidated Statements of Operations. We recognize revenues upon the departure of the program, as the remaining performance obligations are perfunctory. Our policy is to obtain payment for substantially all travel services prior to entering into commitments for incurring expenses relating to such travel. Program pass-through expenses include all direct costs associated with our programs, including, but not limited to, costs related to airfare, hotels, meals, ground transportation, guides, professional exchanges and changes in currency exchange rates. Operating expenses, which are expensed 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 ordinary expenses.

### ***Our Common Stock Authorized***

At our Annual Meeting of Stockholders held on May 13, 2005, our stockholders approved an amendment to our Certificate of Incorporation to increase the authorized number of common shares from 20 million to 50 million shares. As a result, we filed an Amended and Restated Certificate of Incorporation with the State of Delaware on May 17, 2005.

## Comparison of the Three Months Ended June 30, 2005 to the Three Months Ended June 30, 2004

### *Gross Program Receipts*

Quarter ended	June 30, 2005	June 30, 2004
	\$81.5 million	\$72.8 million

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

Gross program receipts increased approximately \$8.7 million or 12% in the second quarter of 2005 in comparison to the same quarter of 2004. This increase is primarily related to traveling approximately 1,500 more delegates, or 10%, in the second quarter of 2005. In the second quarter of 2005 and 2004, we traveled 16,500 delegates in comparison to 15,000 delegates, respectively.

### *Net Revenue / Gross Margin %*

Quarter ended	June 30, 2005	June 30, 2004
	\$29.7 million/36 %	\$25.9 million/36 %

Net revenue increased by approximately 15% in the second quarter of 2005. The increase in net revenue was a direct result of traveling more delegates in the second quarter of 2005. Our gross margin (net revenue as a percentage of gross program receipts) remained consistent at 36% in the second quarters of 2005 and 2004, as we were able to pass along certain fuel surcharges to our delegates and maintain travel group size efficiencies.

### *Selling and Tour Promotion Expenses*

Quarter ended	June 30, 2005	June 30, 2004
	\$5.9 million	\$5.0 million

Selling and tour promotion expenses increased \$0.9 million or 18%, primarily resulting from increased personnel to support higher business volumes during 2005 compared to 2004, as well as additional marketing expenses during 2005 to support delegate growth in 2006.

### *General and Administrative Expenses*

Quarter ended	June 30, 2005	June 30, 2004
	\$1.7 million	\$1.2 million

General and administrative expenses increased \$0.5 million as a result of higher business volumes and increased personnel to support the increased delegate counts.

### *Other income*

Quarter ended	June 30, 2005	June 30, 2004
	\$0.8 million	\$0.3 million

Other income consists primarily of interest income generated by cash, cash equivalents and available-for-sale securities. Interest income recognized quarter over quarter increased \$0.5 million primarily due to higher levels of cash balances and rates of return recognized.

***Income Tax Provision***

Quarter ended

June 30, 2005

June 30, 2004

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\$7.6 million

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\$6.8 million

The income tax provision has been recorded based upon the estimated annual effective income tax rate of 33% and 34% applied to the pre-tax income for the quarters ended June 30, 2005 and 2004, respectively.

## Comparison of the Six Months Ended June 30, 2005 to the Six Months Ended June 30, 2004

### *Gross Program Receipts*

Six months ended	June 30, 2005	June 30, 2004
	\$87.5 million	\$76.9 million

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

Gross program receipts increased by approximately \$10.6 million or 14% for the first six months of 2005. The increase is primarily due to traveling approximately 16% more delegates. Nineteen thousand delegates traveled in the first six months of 2005 compared to 16,400 in the first six months of 2004.

### *Net Revenue / Gross Margin %*

Six months ended	June 30, 2005	June 30, 2004
	\$31.9 million/36 %	\$27.1 million/35 %

Net revenue increased by approximately \$4.8 million, or 18% in the first six months of 2005. The significant increase in the net revenue was a direct result of traveling more delegates in the first six months of 2005 than the same period of 2004. Our gross margin (net revenue as a percent of gross program receipts) increased to 36% in the first six months of 2005 from 35% for the same time period of 2004. The 2005 gross margin increased despite certain fuel surcharges passed along to our delegates.

### *Selling and Tour Promotion Expenses*

Six months ended	June 30, 2005	June 30, 2004
	\$11.4 million	\$8.8 million

Selling and tour promotion expenses increased approximately \$2.6 million or 30%. This resulted primarily from increased marketing expenditures related to new domestic programs and existing international programs, combined with increased expenditures to support higher business volumes.

### *General and Administrative Expenses*

Six months ended	June 30, 2005	June 30, 2004
	\$2.8 million	\$2.3 million

General and administrative expenses increased \$0.5 million as a result of expenses to support the increased number of delegates traveling during 2005.

### *Other Income*

Six months ended	June 30, 2005	June 30, 2004
	\$1.2 million	\$0.5 million

Other income in the first six months of 2005 and 2004 consists primarily of interest income generated by cash, cash equivalents and available-for-sale securities. Interest income more than doubled when comparing the six months ending June 30, 2005 and 2004, due to higher levels of cash balances and increased rates of return during the period ended June 30, 2005.

**Income Tax Provision**

Six months ended

June 30, 2005

June 30, 2004

\$6.3 million\$5.6 million

The income tax provision has been recorded based upon the estimated annual effective income tax rate of 33% and 34% applied to the pre-tax income as of the six months ended June 30, 2005 and 2004, respectively.

**Liquidity and Capital Resources**

Our business is not capital-intensive yet is highly seasonal. We retain funds for operating purposes in order to conduct sales and marketing efforts for future programs and to facilitate selective strategic alliance opportunities.

Net cash provided by operations for the six months ended June 30, 2005 and 2004, was \$37.8 million and \$35.3 million, respectively. The \$2.5 million increase in cash flow from operations was primarily related to the net effect of increased net income, combined with growth in participants' deposits for future travel programs and increased cash paid for deposits for future travel within prepaid program costs and expenses.

Net cash used in investing activities for the first six months ended June 30, 2005 and 2004, was \$11.8 million and \$28.4 million, respectively. The \$16.6 million decrease was primarily related to net activities with the purchase of available-for-sale securities.

Net cash used in financing activities for the six months ended June 30, 2005 and 2004, was \$2.9 million and \$2.6 million, respectively. The use of cash in the first six months of 2005 and 2004 was primarily spent for dividend payments of \$0.13 per share during 2005 and \$0.11 per share during 2004 to our shareholders. Increases in proceeds from the exercise of stock options to \$1.4 million from \$0.4 million and increases in payments for repurchased stock to \$1.7 million from \$0.7 million during the six months ended June 30, 2005 and 2004, respectively, also contributed to the net cash used in financing activities. Through the duration of our stock buy-back program adopted on May 18, 2004, we have spent \$4.2 million of the approved \$5 million plan.

At June 30, 2005, we had \$121.1 million of cash, cash equivalents, and available-for-sale securities, including program participant funds of \$87.5 million. At June 30, 2004, we had \$98.9 million of cash, cash equivalents, and available-for-sale securities, including program participant funds of \$62.4 million. Deployable cash (see definition in table below) as of June 30, 2005 and 2004 was \$52.0 million and \$40.1 million, respectively.

**Deployable cash**

	June 30, 2005	June 30, 2004	December 31, 2004
	<u>          </u>	<u>          </u>	<u>          </u>
Cash, cash equivalents and available-for-sale equivalents	\$ 121,082	\$ 98,873	\$ 87,557
Prepaid program cost and expenses	41,063	27,677	2,461
Less: Participants' deposits	(87,473)	(62,404)	(38,608)
Less: Accounts payable/accruals/other liabilities	(22,707)	(24,094)	(8,230)
Deployable cash	<u>\$ 51,965</u>	<u>\$ 40,052</u>	<u>\$ 43,180</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 and foreign exchange currency contracts), participant deposits and the current portion of long-term capital lease. We believe this non-GAAP measure is useful in understanding the cash available to deploy for future business opportunities and is presented as supplementary information to enhance the understanding of, and highlight trends in, our financial position. Any non-GAAP financial measure used should not be considered in isolation or as a substitute for measures of performance or liquidity prepared in accordance with GAAP.

Participant deposits were \$87.5 million and \$62.4 million as of June 30, 2005 and 2004. Under our withdrawal policy, a delegate may be entitled to a refund of a portion of his or her deposit, less certain charges, depending on the time of withdrawal. Should a greater number of delegates withdraw from the program in comparison to that to which we are accustomed, due to circumstances such as international or domestic unrest, terrorism, or general economic downturn, our cash balances could be significantly reduced. In addition, we consider our cash balances at risk, if the financial institutions which held balances beyond that federally insured were to become insolvent. See “*Factors that may Affect Operating Results – Concentration of Credit Risk.*”

We continue to selectively pursue strategic alliances or acquisition opportunities with education and travel related 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 us.

We do not have any material capital expenditure commitments for 2005. We believe that existing cash and cash equivalents and cash flows from operations will be sufficient to fund our anticipated operating needs, capital expenditures and acquisitions through 2005. For a more complete discussion of these and other contractual factors, please refer to our Form 10-K for the year ended December 31, 2004.

### **Foreign Currency – Hedging Policy**

A majority of our travel programs take place outside of the United States and most foreign suppliers require payment in currency other than in U.S. dollars. Accordingly, we are exposed to foreign currency risks relative to changes in foreign currency exchange rates between those currencies and the U.S. dollar. We have a program to provide a hedge against certain of these foreign currency risks with less than two years maturity, and we use forward contracts and options that allow us to acquire the foreign currency at a fixed price for a specified period of time. All of our derivatives are designated as cash-flow hedges of forecasted transactions.

We account for these foreign exchange contracts and options in accordance with the provisions of SFAS No. 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 we are 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 No. 133 are recorded in the statement of operations.

### **Critical Accounting Policies**

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those

associated with cash and cash equivalents, available-for-sale securities, income taxes, derivative financial instruments, and contingencies and litigation.

Cash, cash equivalents, and available-for-sale securities are exposed to concentrations of credit risk. We place cash and temporary cash investments with high credit quality institutions. At times, such balances may be in excess of the federal depository insurance limit or may be on deposit at institutions, which are not covered by this insurance. If such institutions were to become insolvent during which time it held our cash, cash equivalents, or available-for-sale securities in excess of the insurance limit, it would be necessary for us to obtain credit financing to operate travel programs.

The asset and liability approach is used to account for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, in the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

We use foreign currency exchange contracts and options as part of an overall risk-management strategy. These instruments are used as a means of mitigating exposure to foreign currency risk connected to anticipated travel programs. In entering into these contracts, we have assumed the risk, which might arise from the possible inability of counterparties to meet the terms of their contracts. We do not expect any losses as a result of counterparty defaults. However, if such defaults occurred, the necessity would arise to locate alternative counterparties, or we would then consider alternate means of settling our foreign exchange contractual obligations.

We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### **Factors That May Affect Operating Results**

*The following risk factors could materially and adversely affect our future operating results and could cause actual results to differ materially from those predicated in forward-looking statements we make about our business.*

### **Risks Relating to our Business**

#### ***Travel Industry***

Our results of operations will depend upon factors affecting the travel industry in general. Our 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, foreign taxation changes, extreme weather conditions and concerns about passenger safety could result in a temporary or longer-term overall decline in demand for our programs. Also, demand for our 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 our business, financial condition, cash flows and results of operations.

#### ***International Operations and Natural Occurrences***

Our operations are subject to special risks inherent in doing business internationally, as substantially all of our travel programs are conducted outside the United States. In the past, gross receipts from programs to Europe, the South Pacific (Australia and New Zealand) and China have accounted for a majority of our gross receipts. Risks inherent in doing business internationally include potential adverse effects from

operations from war, U.S. military deployments, international and domestic terrorism, civil disturbances, political instability, governmental activities and deprivation of contract rights.

The continued U.S. military presence as a result from the war in Iraq has affected and will continue to affect the travel industry, the markets in which we operate, and our operations and profitability. The potential and long-term effects are uncertain for our customers, the market for our Common Stock, the markets for our services, the strength of the U.S. dollar and the U.S. economy. In the past, we have experienced increased cancellations for our travel programs. We have also experienced a weakened U.S. dollar, the negative effect of which will cost us more to travel participants abroad.

Periods of international and domestic unrest have reduced demand for our travel programs and could have a material adverse effect on our 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.

Demand for our travel programs also may be adversely affected by natural occurrences such as hurricanes, earthquakes, epidemics or other disease outbreaks, and flooding in geographic regions in which we conduct travel programs. 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 our business, financial condition, cash flows, and results of operations.

#### ***Terrorism***

Terrorist attacks, such as the attacks that occurred in London on July 7 and 21, 2005 and in the United States on September 11, 2001, the continued U.S. military response, and other acts of violence or war have and will affect the travel industry generally, the markets in which we operate, as well as our operations and profitability. Further terrorist attacks against the United States or U.S. businesses and citizens 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, we experienced a significant decrease in profitability in 2002. The potential near-term and long-term effects of these attacks are uncertain for our customers, the market for our 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 we may not be able to foresee events that could have an adverse affect on our business or operations.

#### ***Seasonality; Fluctuations in Quarterly Results***

Our business is highly seasonal. The majority of our travel programs are scheduled in June and July of each year, and we anticipate that this trend will continue for the foreseeable future. We recognize gross program receipts, revenues and program pass-through expenses upon the departure of our program delegates. Substantially all of our operating income is generated in the second and third quarters, which historically has offset the operating losses incurred during the rest of the year. Annual results would be adversely affected if our revenues were to be substantially below seasonal norms during the second and third quarters of the year. Our operating results may fluctuate as a result of many factors, including the mix of student, sports, conferences and professional programs and program destinations offered by us and our competitors, the introduction and acceptance of new programs and program enhancements by us and our 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, we record on a quarterly basis realized gains and losses on our 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 our 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. We compete 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, 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 we compete with, the right to use the People to People name in connection with People to People's professional education and sports programs. In general, our Professional Ambassador 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 and continuing education credits for adults. Some of our competitors are larger and have greater brand name recognition and financial resources than we do. There can be no assurance that we will be able to compete successfully, and the failure to compete successfully may have a material adverse affect on our business, financial condition, cash flows and results of operations.

#### ***Dependence on "People to People"***

Our agreements with People to People give us 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. Our agreements with People to People, however, allow People to People to continue to conduct college and professional seminars and internship programs and to develop other sports and professional programs. The People to People agreements expire in 2010 and, at our election, may be further extended through 2020. We believe that we derive benefit from our ability to market our programs using the People to People name. If our agreements with People to People were terminated or if we were unable to use the People to People name to market new programs or destinations, we could have a material adverse affect on our business, financial condition, cash flows and results of operations. Similarly, if our relationship with People to People is disrupted or is adversely impacted because People to People experiences interruption, delay or ceases operations in the future for any reason, our business would be harmed and our stock price may decline.

#### ***Dependence on Travel Suppliers***

We are dependent upon travel suppliers for access to their products and services. Travel suppliers include airlines, hotels, bus lines, overseas coordinators and other participants in the travel industry. Consistent with industry practices, we currently have no long-term agreements with travel suppliers that obligate such suppliers to sell services or products through us on an ongoing basis. Therefore, the travel suppliers generally can cancel or modify their agreements with us upon relatively short notice. In addition, any decline in the quality of travel products and services provided by these suppliers, or a perception by our delegates of such a decline, could adversely affect our reputation. The loss of contracts, changes in our 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 our business, financial condition, cash flows and results of operations.

#### ***Dependence on Key Personnel***

Our performance is substantially dependent on the continued services and performances of our senior management and certain other key personnel. The loss of the services of any of our executive officers or other key employees could have a material adverse affect on our business, financial condition and results of operations. We do not have long-term employment agreements with any of our executive officers. Our future success also depends on our 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 our business, financial condition, cash flows and results of operations.

#### ***Marketing***

Our performance is substantially dependent on effectiveness of our direct marketing efforts, including but not limited to, direct mail and local informational meetings. Failure of our marketing efforts or changes in the direct mail environment could have a material adverse affect on our 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 our business, financial condition, cash flows and results of operations.

***Fluctuation of Currency Exchange Rate; Increased Costs***

Many of our arrangements with our 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, we generally have purchased forward contracts and options 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 our hedging strategy will mitigate longer term foreign exchange valuation trends. Our contract with delegates in our travel programs provides us the option of passing along to delegates any increase in program costs resulting from currency fluctuations. Although we have exercised this option in the past, there can be no assurance that we 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 our business, financial condition, cash flows and results of operations.

***Casualty Losses***

Due to the nature of our business, we 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. We believe that we have adequate liability insurance for risks arising in the normal course of business. Although we have experienced no claims for which we 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 we will be able to obtain insurance coverage at acceptable levels and cost in the future. Successful assertion against us 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 our business, financial condition, cash flows and results of operations.

***Growth, Acquisitions and Alliances***

Our performance is dependent on our ability to grow our business and expand the marketing and travel volume of our youth, sports, conferences and professional travel programs. In addition, our 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 our business, financial condition, cash flows and results of operations.

***Control by Certain Stockholders***

As of December 31, 2004, John Ueberroth, Joseph Ueberroth and Peter Ueberroth (all family members) beneficially owned in the aggregate approximately 18% of the outstanding shares of our Common Stock.

***Concentration of Credit Risk***

Cash, cash equivalents and available-for-sale securities are exposed to concentrations of credit risk. We place our cash and temporary cash investments with high credit quality institutions. At times, such balances may be in excess of the federal depository insurance limit or may be on deposit at institutions which are not covered by this insurance. If such institutions were to become insolvent during which time it held our cash, cash equivalents or available-for-sale securities in excess of the insurance limit, it could be necessary to obtain credit financing to operate our travel programs.

## **Risks Relating to the Separation of the Company from Ambassadors International**

### ***Indemnification of International for Tax Liabilities Incurred in Connection With the Separation***

In connection with the separation, we and Ambassadors International (“International”) entered into a tax sharing agreement pursuant to which we agreed to indemnify International for certain taxes and similar obligations that we would incur if the separation does not qualify for tax-free treatment due to any of the following events:

- the acquisition of a controlling interest in our stock after the separation;
- our failure to continue our business after the separation;
- a repurchase of our stock; or
- other acts or omissions by us.

International agreed to indemnify us for any tax liabilities we incur as a result of our operations and International’s operations prior to our separation from International. Nevertheless, we may be held jointly and severally liable for such liabilities, and we cannot make any assurances that we will be able to recover from International any losses it may suffer. If we take any action or fail to take any action that would cause International’s distribution of our Common Stock to be taxable to International, our financial condition could be seriously harmed.

## **Risks Relating to the Securities Markets and Ownership of our Common Stock**

### ***Fluctuations in Stock Price***

The market price of our Common Stock could be subject to significant fluctuations. Among the factors that could affect our 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 us or our competitors, such as acquisitions or restructurings;
- Actions by institutional stockholders;
- General market conditions;
- Change in key employees;
- Domestic and international, social and economic factors unrelated to our performance;
- Terrorist activities, 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 our Common Stock. In particular, we cannot make assurances that its stock will sell at any particular price, or at all.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

A majority of our travel programs take place outside of the United States and most foreign suppliers require payment in currency other than the U.S. dollar. Accordingly, we are exposed to foreign currency risk relative to changes in foreign currency exchange rates between those currencies and the U.S. dollar. We have 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 we pay most foreign suppliers including the Euro, British pound, Australian dollar and New Zealand dollar. If the U.S. dollar continues to weaken against these four major currencies, we face increased costs to travel a delegate abroad and therefore increased pressure on the gross margin (revenue as a percentage of gross program receipts). We are not able to determine whether the impact of the weakening U.S. dollar will be material on our business, financial condition, cash flows and results of operations. See further discussion of these market risks in Item 2 "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That may Affect Operating Results.*"

### **Item 4. Controls and Procedures**

#### ***(a) Evaluation of disclosure controls and procedures***

As of June 30, 2005, the end of the period covered by this report, our chief executive officer and chief financial officer reviewed and evaluated the effectiveness of our 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 we 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, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our 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, June 30, 2005, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II  
OTHER INFORMATION**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities**

On May 18, 2004, our Board of Directors authorized the repurchase of up to \$5 million of our Common Stock in the open market or through private transactions. During the quarter ended June 30, 2005, we repurchased 31,628 shares of our Common Stock for \$1.0 million. Since inception, we have repurchased approximately 150,000 shares of Common Stock for an approximate total of \$4.2 million and as of June 30, 2005, approximately \$0.8 million remained available for repurchase under the plan.

The following is a summary of issuer purchases of equity securities during the quarter ended June 30, 2005:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value that may yet be Used under the Plan
Amount available for repurchase at March 31, 2005				\$ 1,826,364
April 1 – April 30, 2005	9,383	\$ 33.15	9,383	1,515,303
May 1 - May 31, 2005	22,245	32.88	22,245	783,922
June 1 - June 30, 2005	-	-	-	783,922
	31,628	\$ 32.96	31,628	\$ 783,922

**Item 4. Submission of Matters to a Vote of Security Holders**

At the annual meeting of shareholders of registrant on May 13, 2005, the following matters were voted upon:

- (a) Election of Directors: The following three directors will hold office for a three-year term or until their respective successors are duly elected and qualified:

Nominee	Votes For	Votes Withheld
Brigitte M. Bren	9,562,294	267,393
Daniel G. Byrne	9,631,836	197,851
Rafer L. Johnson	9,562,294	267,393

- (b) Amendment of our Certificate of Incorporation to increase the authorized number of shares of Common Stock from 20,000,000 shares to 50,000,000

Votes For	Votes Against	Abstain
6,700,296	3,129,391	-

**Item 6. Exhibits**

- 3.1 Certificate of Amendment to Amended and Restated Certificate of Incorporation of Ambassadors Group, Inc., dated May 13, 2005 (1)
- 16.1 Letter from PricewaterhouseCoopers LLP to the Securities and Exchange Commission, dated May 18, 2005 (2)
- 31.1 Certification under Section 302 of the Sarbanes-Oxley Act of 2002 (3)
- 31.2 Certification under Section 302 of the Sarbanes-Oxley Act of 2002 (3)
- 32.1 Certification under Section 906 of the Sarbanes-Oxley Act of 2002 (3)
- 32.2 Certification under Section 906 of the Sarbanes-Oxley Act of 2002 (3)

- (1) Filed as an exhibit of the same number to a Current Report on Form 8-K filed on May 17, 2005, and incorporated herein by reference.
- (2) Filed as an exhibit of the same number to a Current Report on Form 8-K filed on May 20, 2005, and incorporated herein by reference.
- (3) Filed herewith.

## **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: August 9, 2005

By: /s/ CHADWICK J. BYRD

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Chadwick J. Byrd  
Chief Financial Officer

## **EXHIBIT INDEX**

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(1) Filed as an exhibit of the same number to a Current Report on Form 8-K filed on May 17, 2005, and incorporated herein by reference.

(2) Filed as an exhibit of the same number to a Current Report on Form 8-K filed on May 20, 2005, and incorporated herein by reference.

(3) Filed herewith.

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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: August 9, 2005

/s/ Jeffrey D. Thomas

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, Chadwick J. Byrd, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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: August 9, 2005

/s/ Chadwick J. Byrd

Chadwick J. Byrd  
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 June 30, 2005, 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. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) 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: August 9, 2005

/s/ Jeffrey D. Thomas

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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 June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Chadwick J. Byrd, chief financial officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) 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: August 9, 2005

/s/ Chadwick J. Byrd

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Chadwick J. Byrd

Chief Financial Officer