

**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, 2006

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

- Large Accelerated filer
- Accelerated filer
- Non-Accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

- Yes
- No

The number of shares outstanding of the registrant’s Common Stock, \$0.01 par value, as of April 27, 2006 was 20,647,144.

TABLE OF CONTENTS

	<u>Page</u>
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets	1
Consolidated Statements of Operations	2
Consolidated Statements of Comprehensive Loss	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures About Market Risk	16
Item 4. Controls and Procedures	16
PART II – OTHER INFORMATION	
Item 1A. Risk Factors	17
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 6. Exhibits	21
SIGNATURES	22

**PART I
FINANCIAL INFORMATION**

Item 1. FINANCIAL STATEMENTS

AMBASSADORS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
March 31, 2006 and December 31, 2005
(dollars in thousands, except share and per share data)

	March 31, 2006 (UNAUDITED)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,523	\$ 26,916
Available-for-sale securities	109,063	89,688
Other assets	2,769	955
Prepaid program costs and expenses	15,178	1,596
Total current assets	168,533	119,155
Property and equipment, net	6,857	5,140
Deferred tax asset	558	584
Other long-term assets	167	167
Total assets	<u>\$ 176,115</u>	<u>\$ 125,046</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,212	\$ 2,540
Accrued expenses	5,111	3,482
Foreign currency exchange contracts	1,745	1,896
Other liabilities	2,559	2,596
Participants' deposits	104,289	47,463
Current portion of long-term capital lease	183	180
Total current liabilities	115,099	58,157
Long-term capital lease	340	387
Total liabilities	115,439	58,544
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value; 50,000,000 shares authorized; 20,647,144 and 20,656,957 shares issued and outstanding, respectively	206	206
Additional paid-in capital	19,470	20,142
Retained earnings	42,344	47,550
Accumulated other comprehensive loss	(1,344)	(1,396)
Total stockholders' equity	60,676	66,502
Total liabilities and stockholders' equity	<u>\$ 176,115</u>	<u>\$ 125,046</u>

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, 2006 and 2005
(dollars in thousands, except per-share amounts)

	<u>2006</u>	<u>2005</u>
Net revenues, non-directly delivered programs	\$ 545	\$ 2,179
Gross revenue, directly delivered programs	4,106	—
Less cost of sales, directly delivered programs	<u>2,146</u>	<u>—</u>
Net revenues from all programs	2,505	2,179
Operating expenses:		
Selling and tour promotion	6,515	5,512
General and administrative	<u>2,013</u>	<u>1,137</u>
	8,528	6,649
Operating loss	(6,023)	(4,470)
Other income:		
Interest and dividend income	<u>955</u>	<u>475</u>
Loss before income taxes	(5,068)	(3,995)
Income tax benefit	<u>1,620</u>	<u>1,358</u>
Net loss	<u>\$ (3,448)</u>	<u>\$ (2,637)</u>
Net loss per share – basic and diluted	<u>\$ (0.17)</u>	<u>\$ (0.13)</u>
Weighted-average common shares outstanding – basic and diluted	20,534	20,184

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

AMBASSADORS GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)
For the three months ended March 31, 2006 and 2005
(dollars in thousands)

	<u>2006</u>	<u>2005</u>
Net loss	\$(3,448)	\$(2,637)
Unrealized gain (loss) on foreign currency exchange contracts, net of income tax (provision) benefit of \$(57) and \$82	94	(159)
Unrealized loss on available-for-sale securities, net of income tax benefit of \$18 and \$32	(42)	(64)
Comprehensive loss	<u>\$(3,396)</u>	<u>\$(2,860)</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, 2006 and 2005
(dollars in thousands)

	UNAUDITED	
	2006	2005
Cash flows from operating activities:		
Net loss	\$ (3,448)	\$ (2,637)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	358	231
Amortization of unearned compensation	181	90
Stock option expense	384	—
Change in assets and liabilities:		
Prepaid program costs and expenses	(13,582)	(10,347)
Accounts payable and accrued expenses	(1,543)	(356)
Participants' deposits	56,826	47,752
Other current assets	(1,827)	(1,339)
Net cash provided by operating activities	<u>37,349</u>	<u>33,394</u>
Cash flows from investing activities:		
Net change in available-for-sale securities	(19,435)	(10,130)
Purchase of investments	—	(6)
Purchase of property and equipment	(268)	(587)
Net cash used in investing activities	<u>(19,703)</u>	<u>(10,723)</u>
Cash flows from financing activities:		
Dividend payment to shareholders	(1,758)	(1,318)
Repurchase of common stock	(1,471)	(703)
Proceeds from exercise of stock options	234	427
Capital lease payments	(44)	(37)
Net cash used in financing activities	<u>(3,039)</u>	<u>(1,631)</u>
Net increase in cash and cash equivalents	14,607	21,040
Cash and cash equivalents, beginning of period	26,916	11,036
Cash and cash equivalents, end of period	<u>\$ 41,523</u>	<u>\$ 32,076</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 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.

We have 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 participants and utilize similar processes for program marketing.

Revenue from non-directly delivered programs is presented as net revenue and recognized as the program convenes. For these programs, we do not actively manage the operations of each program, and our remaining performance obligation for these programs after they convene is perfunctory. For directly delivered programs, however, we organize and operate all activities including speakers, facilitators, events, accommodations and transportation. As such, we recognize the gross revenue and cost of sales of these directly delivered programs over the period the programs are being delivered.

In our opinion, the consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our financial position at March 31, 2006 and December 31, 2005 and our results of operations and cash flows for the three months ended March 31, 2006 and 2005. Certain prior-year amounts have been reclassified to conform with our current year financial statement presentation. Such reclassifications had no impact on previously reported net income or stockholders' equity.

2. Net Loss Per Share

Net loss per share — basic is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Net loss 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. However, due to the net loss during the quarters ended March 31, 2006 and 2005, such shares have been excluded from the computation, as they are anti-dilutive.

AMBASSADORS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents a reconciliation of basic and diluted earnings per share (“EPS”) computations and the number of dilutive securities (stock grants and options).

	<u>2006</u>	<u>2005</u>
Numerator:		
Net loss for basic and diluted earnings per share	\$ (3,448)	\$ (2,637)
Denominator:		
Weighted-average shares outstanding – basic	20,534	20,184
Effect of dilutive common stock options	(A)	(A)
Weighted-average shares outstanding – diluted	<u>20,534</u>	<u>20,184</u>
Net loss per share – basic and diluted	\$ (0.17)	\$ (0.13)

(A) For the three months ended March 31, 2006 and 2005, the effects of approximately 114,000 and 522,000 stock grants and options, respectively, have been excluded from the calculation because the effect would be anti-dilutive.

3. Accounting for Stock-Based Compensation

Stock Plans

Effective November 2001, we adopted the 2001 Equity Participation Plan (the “Plan”). The Plan provides for the grant of stock options, awards of restricted stock, performance or other awards or stock appreciation rights to our directors, key employees and consultants. The maximum number of shares which may be awarded under the Plan is 3.6 million shares, and approximately 0.9 million shares remain available for future issuance.

Under the terms of the Plan, options to purchase shares of our common stock are granted at a price set by the Compensation Committee of the Board of Directors, not to be less than the par value of a share of common stock and if granted as performance-based compensation or as incentive stock options, no less than the fair market value of the stock on the date of grant. The Compensation Committee establishes the vesting period of the awards, which is generally set at 25 percent per year for four years. The options may be exercised any time after they are vested for a period up to 10 years from the grant date.

Under the terms of the Plan, stock grants follow the same grant price parameters as options. The Compensation Committee also establishes the vesting period of the grants, which is generally set at 100 percent at the conclusion of one to four years. Our key employees who have been awarded stock grants and are full time employees are subject to a four year vesting period, and our Board of Directors who have been awarded stock grants are subject to a one year vesting period. During the three months ended March 31, 2006 and 2005, we did not grant any stock grants to key employees.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and our experience. Prior to 2006, 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.” We chose to measure compensation cost for stock-based employee compensation plans using the intrinsic value method of accounting prescribed by Accounting Principles

AMBASSADORS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees.” All stock options are granted at market value on the date of grant. Accordingly, no compensation expense was recognized in 2005 for options related to the stock option plan. We adopted the provisions of SFAS No. 123(R), “Share Based Payment” on January 1, 2006, using the modified prospective method of adoption.

Total stock-based compensation expense recognized in the consolidated statement of operations for the quarter ended March 31, 2006 was \$0.6 million before income taxes and consisted of stock option expense of \$0.4 million and restricted stock grant expense of \$0.2 million. The related total tax benefit was \$0.2 million for the quarter ended March 31, 2006.

Had compensation cost for our stock option plan been determined based on fair value at the grant dates under the plan consistent with the method of SFAS No. 123, net loss and net loss per share amounts for the quarter ended March 31, 2005, would have been changed to the pro-forma amounts indicated below (in thousands except per share data):

	<u>2005</u>
Net loss as reported	\$ (2,637)
Add:	
Stock-based employee compensation expense for stock grants, included in reported net income, net of related tax effects	90
Deduct:	
Stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects	(158)
Pro-forma net loss	<u>\$ (2,705)</u>
Pro-forma net loss per share – basic and diluted	<u>\$ (0.13)</u>

Disclosures for the quarter ended March 31, 2006 are not presented as the amounts are recognized in the consolidated financial statements.

No restricted stock grants or stock options were granted during the quarter ended March 31, 2006. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the three months ending March 31, 2005:

	<u>2005</u>
Expected dividend yield	1.53%
Expected stock price volatility	36.44%
Risk-free interest rate	4.18%
Expected life of options	7.72 years
Estimated Fair Value per option granted	\$6.64

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on historical volatility of our stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent

AMBASSADORS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

remaining term. We have also included our anticipated dividend yield based on quarterly cash dividends paid to our shareowners during 2006 and 2005.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of options. In addition, option valuation models require the input of highly subjective assumptions, particularly for the expected term and stock price volatility. Our associate stock options do not trade on a secondary exchange, therefore associates do not derive a benefit from holding stock options unless there is an increase above the grant price, in the market price of our stock. Such an increase in stock price would benefit all shareholders commensurately.

Stock option and restricted stock transactions during the three months ended March 31, 2006 were as follows:

	Number Of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value <i>(in thousands)</i>
Outstanding, December 31, 2005	1,958,911	\$ 8.40		
Granted	--	--		
Exercised	(50,187)	4.67		
Canceled	(7,200)	10.39		
Outstanding, March 31, 2006	1,901,524	\$ 8.50	6.3	\$ 32,140
Exercisable, March 31, 2006	1,274,739	\$ 6.06	5.12	\$ 24,657

The aggregate intrinsic value in the table above is before applicable income taxes, based on our closing stock price of \$25.40 at March 31, 2006, which would have been received by the optionees had all options been exercised on that date. As of March 31, 2006, total unrecognized stock-based compensation expense related to non-vested stock options and restricted stock grants was approximately \$5.0 million, which is expected to be recognized over a period of approximately 3.75 years. During the quarter ended March 31, 2006, the total intrinsic value of stock options exercised was \$1.1million, and the total fair value of options vested was \$0.5 million.

AMBASSADORS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents information about the common stock options and restricted grants as of March 31, 2006:

	Number of Shares	Range of Exercise Price		Weighted-Average	
				Exercise Price	Remaining Life (years)
Exercisable options	424,156	\$ 2.68	- \$ 5.36	\$ 4.03	3.2
Exercisable options	704,563	5.36	- 8.04	6.10	5.9
Exercisable options	82,863	8.04	- 10.72	9.52	7.1
Exercisable options	27,400	10.72	- 13.40	11.88	7.8
Exercisable options	35,757	16.08	- 18.76	16.73	8.7
Total exercisable options	<u>1,274,739</u>	<u>\$ 2.68</u>	<u>- \$ 18.76</u>	<u>\$ 6.06</u>	<u>5.2</u>
Unexercisable stock grants	138,953	\$ -	- \$ -	\$ -	2.8
Unexercisable options	34,825	5.36	- 8.04	6.12	5.9
Unexercisable options	72,222	8.04	- 10.72	9.62	7.1
Unexercisable options	61,950	10.72	- 13.40	11.66	7.8
Unexercisable options	20,716	13.40	- 16.08	15.99	9.1
Unexercisable options	109,973	16.08	- 18.76	16.73	8.7
Unexercisable options	74,000	18.76	- 21.44	21.09	9.4
Unexercisable options	114,146	24.12	- 26.80	26.80	9.6
	<u>626,785</u>	<u>\$ 5.36</u>	<u>- \$ 26.80</u>	<u>\$ 13.44</u>	<u>7.2</u>
Total all options and stock grants	<u>1,901,524</u>	<u>\$ 2.68</u>	<u>- \$ 26.80</u>	<u>\$ 8.50</u>	<u>6.3</u>

4. Related Party Transaction

In March, 2006, we entered into an agreement to purchase approximately 11 acres of real property in Spokane, Washington to be used for our new corporate headquarters. Total consideration for the real property was \$1.8 million and was paid on April 4, 2006. Construction of the new facility is expected to begin in the third quarter of 2006 with completion in 2007. An executive officer of our company is the brother to our real estate agent at Cornerstone Property Advisors, LLC, who advised us in the transaction and to which an approximate \$100,000 commission was paid by the seller. Terms of the land purchase were at arms length and did not change as a result of the related party relationship.

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 9, 2006.

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

Executive Overview

We are a leading educational travel company that organizes and promotes international and domestic programs for students, athletes and professionals. Youth 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 as well as for middle and high school athletes to participate in international sports challenges. Our conference programs provide educational opportunities for middle school and high school students to learn leadership, government, college admissions and community involvement skills at domestic and international destinations. Our professional 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 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." The 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 inter-company accounts and transactions have been eliminated in consolidation.

We have 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.

Our Seasonality

Our business is seasonal. The majority of our travel programs occur in June and July of each year. We have historically earned more than 90 percent of our annual revenues in the second and third quarters, which we anticipate will continue for the foreseeable future. Historically, these seasonal revenues have more than offset operating losses incurred during the rest of the year. Our annual results would be adversely affected if our revenues were to be substantially below seasonal norms during these periods. Our operating results may fluctuate as a result of many factors. See Part II- Other Information, Item 1A, “*Risk Factors*” for further explanation.

Our Foreign Exposure

The majority of our programs take place outside the United States and most foreign suppliers require payment in local currency rather than in U.S. dollars. Accordingly, we are exposed to foreign currency risks in certain countries as foreign currency exchange rates between those currencies and the U.S. dollar fluctuate. We have a program to provide a hedge against certain of these foreign currency risks. We use forward contracts and options that allow us to acquire the foreign currency at a fixed price for a specified period of time. Some of our forward contracts and options include a variable component if a pre-determined trigger occurs during the term of the contract.

These foreign exchange contracts and options are entered into to support normal anticipated recurring purchases and, accordingly, are not entered into for speculative purposes.

Program Revenue and Accounting Structure

The majority of our revenue is from non-directly delivered programs and is presented as net revenue and recognized as the program convenes. For these programs, we do not actively deliver the operations of each program, and our remaining performance obligation for these programs after they convene is perfunctory. For directly delivered programs, however, we have begun to organize and operate all activities including speakers, facilitators, events, accommodations and transportation. As such, we recognize the gross revenue and cost of sales of these directly delivered programs over the period the programs are being delivered.

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 and direct delivery expenses include all direct costs associated with our programs, including, but not limited to, costs related to airfare, hotels, meals, ground transportation, guides, presenters, facilitators, 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.

Comparison of the Three Months Ended March 31, 2006 to the Three Months Ended March 31, 2005

Net revenue increased approximately 15 percent to \$2.5 million from \$2.2 million in the first quarters of 2006 and 2005, respectively. The increased net revenue is primarily due to efficient operations on the direct delivery of our domestic programs which resulted in a gross margin increase from 36 percent to 46 percent, offset by fewer delegates traveled. During the quarter ended March 31, 2006, we traveled approximately 2,000 delegates, a decrease from 2,500 during the comparable 2005 quarter. This decrease is due to certain cyclical programs offered last year and not repeated this year.

Selling and tour promotion expenses increased \$1.0 million or 18 percent between the first quarters of 2006 and 2005, to \$6.5 million from \$5.5 million, respectively. The increase in operating expenses was primarily due to increased marketing for 2006 and 2007 program campaigns, as well as incurring these expenditures earlier in the year than in 2005.

General and administrative expenses were \$2.0 million and \$1.1 million during the first quarters of 2006 and 2005. The increased expenses reflect the increased resources to support growth in delegates as well as the implementation of SFAS 123(R), *Share Based Payments*, for which a \$0.4 million stock option expense was recorded.

Other income consists primarily of interest income generated by cash, cash equivalents and available-for-sale securities. Interest income was more than double when comparing quarter over quarter, to \$1.0 million in 2006 from \$0.5 million in 2005, due to higher levels of cash balances quarter over quarter and increased rates of return between the two quarters.

The income tax benefit has been recorded based upon the estimated annual effective income tax rate of 32 percent and 34 percent, applied to the pre-tax loss for the quarters ended March 31, 2006 and 2005, respectively.

Liquidity and Capital Resources

Net cash provided by operations for the three months ended March 31, 2006 and 2005, was \$37.3 million and \$33.4 million, respectively. The \$3.9 million increase in cash flow from operations was primarily related to the net effect of timing in participants' deposits for future travel programs and an increase in prepaid program costs and expenses.

Net cash used in investing activities for the first three months ended March 31, 2006 and 2005 was \$19.7 million and \$10.7 million, respectively. The \$9.0 million increased use of cash was primarily related to net activities with the purchase of available-for-sale securities.

Net cash used in financing activities for the three months ended March 31, 2006 and 2005 was \$3.0 million and \$1.6 million, respectively. The net change in financing activities was a result of a \$0.4 million increase used for cash dividends to our shareholders and an \$0.8 million increase in cash used for the repurchase of our common stock. During the first quarter of 2006, we paid \$1.8 million in cash dividends and used \$1.5 million for stock repurchases.

At March 31, 2006, we had \$150.6 million of cash, cash equivalents, restricted cash and available-for-sale securities, including program participant funds of \$104.3 million. At March 31, 2005, we had \$118.6 million of cash, cash equivalents, restricted cash and available-for-sale securities, including program participant funds of \$86.4 million.

Under our cancellation policy, a program delegate may be entitled to a refund of a portion of his or her deposit, less certain fees, depending on the time of cancellation. Should a greater number of delegates cancel their travel in comparison to that which is part of our ongoing operations, due to circumstances such as international or domestic unrest, terrorism or general economic downturn, our 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.

Deployable Cash Reconciliation (at March 31, in thousands)

	UNAUDITED	
	2006	2005
Cash, cash equivalents and available-for-sale securities	\$ 150,586	\$ 118,632
Prepaid program cost and expenses	15,178	12,808
Less: Participants' deposits	(104,289)	(86,360)
Less: Accounts payable/accruals/other liabilities	(8,882)	(7,727)
Less: Current portion of long term capital lease	(183)	(148)
Deployable cash	<u>\$ 52,410</u>	<u>\$ 37,205</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. 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 your 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.

Our business is not capital intensive. However, we do retain funds for operating purposes in order to conduct sales and marketing efforts for future programs. We continue to consider acquisitions of educational, travel and youth 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 2006, not already presented within our March 31, 2006 financial statements. We expect to enter into commitments, however, to facilitate the construction of a new corporate office. This corporate office will replace our current main office and will be located in Spokane, Washington. We expect to spend less than \$20 million on the office and land, combined. Not all of this expenditure will be incurred in 2006, however. We believe that existing cash and cash equivalents and cash flows from operations will be sufficient to fund our anticipated operating needs and capital expenditures through 2006. For a more complete discussion of these and other contractual factors, please refer to our Form 10-K for the year ended December 31, 2005.

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 and Estimates

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 and Investments

Cash, cash equivalents, and available-for-sale securities are initially recorded at cost, which includes any premiums and discounts. We determine the appropriate classification of investment securities at the time of purchase. Held-to-maturity securities are those securities that we have the positive intent and ability to hold to maturity and are recorded at amortized cost. Available-for-sale securities are those securities that would be available to be sold in the future in response to our liquidity needs. Available-for-sale securities are reported at fair value, with unrealized holding gains and losses reported in stockholders' equity as a separate component of other comprehensive income, net of applicable deferred income taxes.

Management evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. If the fair value of investment securities falls below their amortized cost and the decline is deemed to be other-than-temporary, the securities will be written down to current market value, resulting in a loss recorded in the income statement. There were no investment securities that management identified to be other-than-temporarily impaired during the quarter ended March 31, 2006, because the decline in fair value was attributable to changes in interest rates and not credit quality, and because we have the ability and intent to hold these investments until a recovery in market price occurs, or until maturity. Realized losses could occur in future periods due to a change in management's intent to hold the investments to maturity, a change in management's assessment of credit risk, or a change in regulatory or accounting requirements.

Income Taxes

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 basis 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.

Foreign Currency

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.

Other Liabilities

Prior to 2006, we received a refund of monies previously paid for certain foreign goods and services taxes. It is unclear whether the refund is permanent and accordingly, we have recorded this refund as a liability on the balance sheet and adjust the value accordingly for interest and gain or loss on the currency exchange. Also quarterly, we recognize into income amounts, if any, for which the uncertainty has been eliminated.

Revenue Recognition

For non-directly delivered programs, we do not actively manage the operations of each program, and our remaining performance obligation for these programs after they convene is perfunctory. Therefore, revenue from these programs is presented as net revenue and recognized as the program convenes. For directly delivered programs, however, we organize and operate all activities including speakers, facilitators, events, accommodations and transportation. As such, we recognize the gross revenue and cost of sales of these directly delivered programs over the period the programs are operated.

We bill delegates in advance of travel, payments of which are recorded as participants' deposits. We also pay for certain program costs in advance of travel, including, but not limited to, airfare, hotel, rail passes and other program costs, which are recorded as prepaid program costs and expenses. Under our cancellation policy, a program delegate may be entitled to a refund of a portion of his or her deposit, less certain fees, depending on the time of cancellation. We recognize cancellation fees concurrent with the revenue recognition from the related programs.

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.

Stock-Based Compensation

We account for stock-based compensation in accordance with the fair value recognition provisions of SFAS 123(R). We use the Black-Scholes option-pricing model, which requires the input of highly subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized on the consolidated statements of operations.

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 (net 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 March 31, 2006, 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, March 31, 2006, 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 1A. Risk Factors

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.

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 effect 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 revenues from programs to Europe, the South Pacific (Australia and New Zealand) and China have accounted for a majority of our gross revenues. 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 delegates 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 but are not limited to 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, England and in Amman, Jordan in 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 for the majority of our programs. 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 the 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 our 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 our 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.

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 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 shareholders; 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 our stock will sell at any particular price, or at all.

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. On August 12, 2005, our Board of Directors increased the authorized Common Stock repurchase plan amounts to \$14.0 million. On that same date, our Board of Directors declared a two-for-one stock split of our Common Stock. During the quarter ended March 31, 2006, we repurchased 60,000 shares of our Common Stock for \$1.5 million. Since inception, we have repurchased approximately 448,000 shares of our Common Stock, adjusted for our two-for-one stock split of our Common Stock, for an approximate total of \$7.7 million. As of March 31, 2006, approximately \$6.3 million remained available for repurchase under the plan.

The following is a summary of issuer purchases of equity securities during the quarter ended March 31, 2006:

Period	Total Number Of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 – January 31, 2006	—	—	—	\$ 7,794,634
February 1 – February 28, 2006	15,400	\$ 24.50	15,400	7,794,634
March 1 – March 31, 2006	44,600	24.49	44,600	7,417,334
Total	60,000	\$ 24.49	60,000	\$ 6,325,227

Item 6. 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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned thereunto duly authorized.

AMBASSADORS GROUP, INC.

Date: May 10, 2006

By: /s/ CHADWICK J. BYRD
Chadwick J. Byrd
Chief Financial Officer

EXHIBIT INDEX

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

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: May 10, 2006

/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: May 10, 2006

/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 March 31, 2006, 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: May 10, 2006

/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 March 31, 2006, 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: May 10, 2006

/s/ Chadwick J. Byrd

Chadwick J. Byrd

Chief Financial Officer