

# FINAL TRANSCRIPT

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## **ATAI - Q4 2008 ATA Inc. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Ed Job**

*CCG Elite Investor Relations - IR Advisor*

**Kevin Ma**

*ATA Inc. - CEO*

**Walter Wang**

*ATA Inc. - President*

**Carl Yeung**

*ATA Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Mark Marostica**

*Piper Jaffray - Analyst*

**Adele Mao**

*Susquehanna International - Analyst*

## PRESENTATION

**Operator**

Good morning, afternoon, evening to all and welcome to the ATA Inc. Fourth Quarter Fiscal Year 2008 Earnings Conference Call. For the duration of the presentation all lines will be placed in listen-only mode.

Following management's prepared remarks we will conduct a question and answer session.

(OPERATOR INSTRUCTIONS)

I would now like to hand the call over to Mr. Ed Job. Thank you. You may begin, sir.

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**Ed Job - CCG Elite Investor Relations - IR Advisor**

Thank you, Erica. Good morning and good evening and welcome to ATA's Fourth Quarter and Fiscal Year 2008 Earnings Conference Call. With us today are ATA's CEO Mr. Kevin Ma; President Mr. Walter Wang and Chief Financial Officer, Mr. Carl Yeung.

Before I turn the call over to Mr. Ma, may I remind our listeners that in this call management's prepared remarks contain forward-looking statements which are subject to risks and uncertainties and management may make additional forward-looking statements in response to your questions.

Therefore, the Company claims the protection of the Safe Harbor for forward-looking statements that is contained in the Private Securities Litigation Reform Act of 1995. Actual results may differ from those discussed today and therefore we refer you to a more detailed discussion of the risks and uncertainties in the Company's filings with the Securities and Exchange Commission.

In addition, any projections as to the Company's future performance represent management's estimates as of today, May 15, 2008. ATA assumes no obligation to update these projections in the future as market conditions may change. To supplement its financial results presented in accordance to U.S. GAAP, management will make reference to certain non-GAAP fiscal measures which the Company believes provides meaningful additional information to understand ATA's operating performance.

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Also, the numbers discussed on this call are preliminary, unaudited financial results for the fourth quarter and fiscal year ended March 31, 2008 and remain subject to change. These results may for example become subject to adjust based on completion of the Company's full year reporting process and its audited results could differ materially from the estimates provided in this call.

ATA management expects to issue fully audited results in August 2008. For those unable to listen to the entire call, a recording will be available via webcast for 90 days at the Investor Relations section of ATA's website at <http://www.ata.net.cn>. And now it's my pleasure to turn the call over to ATA's CEO, Mr. Kevin Ma. Kevin, you may begin.

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**Kevin Ma - ATA Inc. - CEO**

Thank you, Ed. Welcome, everyone and thank you for joining us today. We are pleased to report the third quarter -- to complete the fiscal year for ATA. During this fiscal year we've become a public company strengthening our relationship with key test sponsors and position our company well to profit in the computer based testing, preparation and educational services industries in China.

We also experienced a strong growth in our revenue. Improved our profit margins significantly and delivered our first profitable year. The highlights of our fiscal year 2008 preliminary results include; one, net revenue was up approximately 103.6%, to RMB172.8 million. Two, gross profit was up approximately 141.9% to RMB105.9 million. Three, net income was approximately RMB15.1 million from a loss of RMB16.8 million in the previous year.

As we look into fiscal year 2009, we continue to see significant opportunities for the profitable growth of our business and we look for this to continue to deliver positive results and to report on our progress during our company conference calls. With that, I will hand the call to Walter who will provide you with the business updates and Carl who will discuss our preliminary financial results for the quarter.

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**Walter Wang - ATA Inc. - President**

Thank you, Kevin and welcome to everyone join us on the call today. We are very pleased with our results for this seasonally slow quarter. This strong year-over-year improvement in our top and bottom lines are testament to the progress we have made in the execution of our business strategy. During the quarter, we continued to make progress in a number of [forums] to strengthen our leadership condition in the computer based testing service, test preparation and education and service business in China.

We saw very strong year-over-year growth in our [passing] service business. We leveraged our strong relationship with key test sponsors to deliver a record number of tests for the Ministry of Labor of labor and China's Security Association during our fourth quarter. We also successfully made first penetration in the use of ATS computer based patent service for the HR assessment market.

For the quarter we delivered 16,000 tests to Huaxia Bank to support recruitment and staff improvement programs. In addition, we expand our network of test centers to 1,854 locations in China, up from 1,835 at the end of 2007, further expanding our entry barriers.

Subsequent to the end of the quarter we received the necessary domestic approvals for the acquisition of Beijing Jindixin holdings. This acquisition will expand the scope of service we can offer test sponsors to include standalone test management solutions and will also give us access to parent customers that are using tests and consulting management software developed by Beijing Jindixin.

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Our test based education service delivered modest year-over-year growth driven by licensing revenue from our test based education solutions. Finally, our test preparation solution targeted as professional licensing -- licensure as a certification test showed solid year-over-year growth driven by online training for the upcoming internet cafe licensure exam which we are expecting to start to contribute to our revenues in the first quarter of fiscal year 2009.

In addition, we expect a record breaking number of test takers for the China Banking Association scheduled to take place on May 31st, and June 1st, driven by lower test fees. We believe lower fees will support the gross momentum in demand for China Banking Association test and should more than compensate for the lower fees per test taker contributing positively to our result in the quarter [at hand]. With that, I will now turn the call over to our CFO, Carl Yeung.

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**Carl Yeung - ATA Inc. - CFO**

Thank you, Walter. We are very pleased with our preliminary fourth quarter results. Please do note that these results are preliminary in nature and are subject to adjustments from full year closing procedures. Preliminary net revenues grew approximately 84% year-on-year to RMB29.8 million. Preliminary net revenues from testing services increased by approximately 263.7% to RMB11.4 million for the quarter.

Overall number of tests delivered increased by 89% year-on-year to approximately 597,000 tests compared to 316,000 tests in the same period last year. Average price per test delivered was approximately RMB19.1, up 92.4% from RMB9.9 in the comparable period last year.

This increase in average revenue per test was due to a significant increase in higher price tests delivered to the Securities Association of China and the Ministry of Labor. We delivered approximately 320,000 tests for the Ministry of Labor and we deliver approximately 120,000 tests for the China Securities Association, both record breaking numbers for a seasonally slow fourth quarter.

In addition, as Walter has mentioned, we deliver approximately 16,000 tests for Huaxia Bank. This marks our first successful penetration into the internal HR assessment market. Our preliminary net revenues from the Securities Association of China grew to an aggregate of RMB4.5 million in the quarter from nothing in the same period last year.

As we continue to focus on higher growth and margin opportunities, we expect growth and test delivery revenue in the finance sector to continue to grow and outpace our growth in revenue from our government's ministry customers. Preliminary net revenues from test preparation solutions increased RMB400,000 from RMB49,000 in the same period last year. This is primarily driven by internet cafe test preparation solutions ahead of implementation of exams by the Ministry of Culture in the quarters ahead.

Preliminary net revenues from test based education services increased by approximately 31.2% to RMB15.9 million in the fourth quarter. Single course program revenues increased 74.8% to RMB2.9 million from RMB1.6 million in the same period last year. Occupational training program revenue has decreased slightly to RMB500,000 from RMB600,000 in the same period last year. Degree Major Program revenue increased 26.5% to RMB12.5 million from RMB9.9 million in the same period last year.

Preliminary gross profit increased by approximately 290.3% year-on-year to RMB16.7 million. Gross margin also increased to 56.1% from 26.4% in the comparable period in 2007. Gross margin for the full year was 61%. Gross margin expansion was driven by improved revenue mix from the testing and test preparation business which we have lower direct costs.

Preliminary total operating expense increased by approximately 26.4% year-on-year to RMB21.4 million. Preliminary sales and marketing expenses increased by an estimated 29.4% year-on-year to RMB7.2 million, up from RMB5.6 million driven by an increase in share based compensation.

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Preliminary general and administration of expenses increased by an estimated 27.2 million year-on-year to RMB11.1 million from RMB8.7 million. Preliminary research and development expenses increased by an estimated 17.4% year-on-year to RMB3.0 million, up from RMB2.6 million primarily due to increased head count.

Preliminary loss from operations was approximately RMB4.6 million, down from a loss of 12.6 million in the same period last year. In the quarter we had an estimated foreign exchange loss of RMB7.6 million due to the depreciation of the U.S. dollar. This is a non-cash impact due to our operating currency of RMB.

Now to repatriate the cash into China, ATA plans to use part of the proceeds to acquire the current office facilities if we can price it better than rental and contribute positively to operating expenses. In addition, we continue to look for acquisition opportunities. Preliminary net loss for the quarter was approximately RMB10.8 million, compared to RMB11.8 million in the comparable period last year. Basic and diluted loss per common share amounted RMB0.30 and basic and diluted loss per ADS was RMB0.60.

Preliminary net loss excluding share based compensation expense and foreign currency exchange losses in non-GAAP number was an estimated RMB1.3 million for the fourth quarter 2008 compared to RMB11.1 million in the same period last year. Basic and diluted loss per ADS excluding share based compensation expense and foreign currency exchange losses, again a non-GAAP figure was RMB0.07.

As of March 31, 2008, ATA had cash of RMB332.1 million through our initial public offering on the NASDAQ of approximately 5 million ADSs that included the exercise of the underwriters over allotment option at a price of 9.5 per share, we raised approximately RMB44.2 million in net proceeds. Capital expenditures for the quarter was RMB1.5 million mainly for upgrade and improvement of certain software for internal use and additional computers and service.

Turning over to outlook for the fiscal first quarter 2009, we expect net revenues will be in the range of RMB66 million to RMB69 million, representing year-over-year growth in the range of 149% to 161%. ATA expects net revenue for the full fiscal year ended March 31, 2009 to be in the range of RMB340 million to RMB350 million. This is expected to represent a 97% to 103% growth over fiscal year 2008.

This is ATA's current and preliminary view, which is subject to change. Our results of operations for Fiscal Fourth Quarter 2008 are not necessarily indicative of our operating results for any future periods. Now I'll turn the call back to Walter for the closing remarks.

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**Walter Wang** - ATA Inc. - President

Thank you, Carl. In summary, we are pleased to the execution of our strategy in the fourth quarter and with the strong year-over-year progress we have made as we move into first quarter of fiscal year 2009.

We remain confident about the opportunities ahead to grow our business' profitability. We will continue to work diligently in the pursuit of our strategy to further penetrate the testing markets in industries where traditional licensure and certification tests can be adapted to computer based testing method, enhance our test [continuance] creation technologies and delivery systems to provide [bests-in-class] testing service at a competitive price, expand our test preparation and education program offerings by leveraging our relationships with key test sponsors to service the entire education value chain and make selected strategic acquisitions and alliances.

These strategies have served us well and we look forward to reporting on our progress in the quarters and year ahead. With that, we would now like to open the call to your questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS)

Our first question comes from the line of Mark Marostica from Piper Jaffray.

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### Mark Marostica - Piper Jaffray - Analyst

Thank you. My first question relates to your comments around growth from here being more concentrated in the finance sector as opposed to the government's ministry customers and relative to that statement can you give us a sense of a difference in profitability of the tests in the finance sector versus the government ministry customers? Thanks.

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### Carl Yeung - ATA Inc. - CFO

Sure, Mark. Thank you for the question. Yes. We believe that concentration of both will serve us well into the profitability side of the story as well. This is because in general, the finance sectors has average revenue per test tends to be a lot higher than the government ministry test. Just give you an indication.

As you know, for example, the China Banking Association we have been receiving average revenue of RMB74 in the past compares to Ministry of Education of Personnel which we may have sometimes wanted RMB2 revenue per test taker so this concentrate of growth is very positive for ATA.

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### Mark Marostica - Piper Jaffray - Analyst

And then a --

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### Carl Yeung - ATA Inc. - CFO

Yes. And again, the cost of delivering the tests is roughly the same for one customer to another so --

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### Mark Marostica - Piper Jaffray - Analyst

Got it. Just another question as well in regards to your disclosures on the selling, the marketing the G&A R&D lines. I'm curious as do our modeling to get funding years should we assume that those lines would then be rather flat or could you kind of give us a sense of how those costs -- line items should behave as a percentage of revenue or in absolute dollars as we kind of walk through the year? Thanks.

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### Carl Yeung - ATA Inc. - CFO

Yes sure. Unfortunately, I will not be able to provide exact details as we -don't intend to release that to the public. But just as a rough pointer, the Company operates on a fairly scalable operating cost model right now. We do not expect operating costs to be anywhere near the kind of revenue growth we are going to expect, more like a fraction of revenue growth. And if you sort of take into account anything from 10% to 30% growth in overall operating expenses is something that I don't think will be unreasonable to assume.

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**Mark Marostica** - Piper Jaffray - Analyst

Regarding your comments on the pricing items that you gave I believe on the Ministry of Labor test or Banking Association tests I should say. Will we expect this year to see any other pricing changes with regards to your other tests or do you have pretty good visibility on your pricing outside of that particular test that you talked about in the press release?

**Carl Yeung** - ATA Inc. - CFO

Yes, thank you Mark. I think number one for China Banking Association it really demonstrates our position and power in the whole value chain. Although they have decreased their revenue per test, we actually maintain our profitability per test taker. And overall it will contribute positively for number of test takers to grow.

Now we don't expect other test -- service clients to decrease sort of price per test by a candidate. In fact, it is -- we expect that for the China Securities Association for example for the current test revenue would be pretty stable. For some of the newer titles the average price per test will actually increase.

**Mark Marostica** - Piper Jaffray - Analyst

And then one last question and I'll turn it over more for housekeeping. Regarding share counts and stock comp expense for Q1 of fiscal '09. Can you give us any color as how to model that? Thanks a lot.

**Carl Yeung** - ATA Inc. - CFO

For share counts we have disclosed the latest number in the press release in the other operating data sections so you can use that as a starting point and use that for assumption, starting point and I cannot provide more detail in terms of how many shares will be made available to the public in the next 12 months.

This is probably too preliminary to say. In terms of share based compensation, I think you know what we have experienced in the past 12 months may be a good benchmark to look at for the next 12 months. But expect a little bit of increase, naturally, as we have - evergreen provision in our company for our policies to issue 1.0% of our outstanding shares as stock options to be granted every year. So you can pick the increase to come from that pool.

**Mark Marostica** - Piper Jaffray - Analyst

Great. Thank you and congratulations on the quarter and I'll turn it over to someone else to ask questions.

**Carl Yeung** - ATA Inc. - CFO

Thank you, Mark.

**Operator**

Our next question comes from the line of Adele Mao from Susquehanna International. Please proceed.

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**Adele Mao** - *Susquehanna International - Analyst*

Thank you. I have a few questions. First of all, I'd like to ask you about your June quarter guidance. I'm wondering what you have factored in from revenue for any large scale internet cafe qualification tests?

**Carl Yeung** - *ATA Inc. - CFO*

We do have some expectation of the internet cafe tests in that because from the public information that you will receive, the practice -- the basic test preparation for internet cafe has already started in several provinces and in fact have actually contributed revenue in the current quarter around RMB2 million and our ASP is roughly around 1,200. So the training part has already started. The testing part we cannot comment further yet because the policy has not been issued in full to all the provinces, but we do have some expectation there.

**Adele Mao** - *Susquehanna International - Analyst*

Okay. Would you share which provinces have already started on the training programs?

**Carl Yeung** - *ATA Inc. - CFO*

Hi Adele. It's currently (inaudible) and Hunan has started sort of doing the preparation for the tests already.

**Adele Mao** - *Susquehanna International - Analyst*

Okay, great. That's helpful. Also, we have seen several things recently that may impact your June quarter. First of all, it seems that China Security Association has added testing base actually for May and it's offering those tests in 18 cities. I was just wondering is -- will you guys provide us with some kind of idea as to the level of test enrollment in those cities and how shall we think about the revenue [addition] for the quarter?

**Carl Yeung** - *ATA Inc. - CFO*

Hi. Sorry, Adele. We lost the first part of your question, if I can please ask you to repeat that.

**Adele Mao** - *Susquehanna International - Analyst*

Sure. We have seen recently China's Association -- Securities Association actually added testing days in May. It was at the end of May and it's been offering those tests in 18 cities relative to other testing days which is limited to (inaudible). I was just wondering if you could give us an idea in terms of the level of test enrollment capacity there and how should we think about potential revenue impact from this addition for June quarter?

**Carl Yeung** - *ATA Inc. - CFO*

Yes. This has already been factored into our June sort of -- numbers of expectation. The distribution rather concentrated in a few key cities or on the wider basis in other less concentrated provinces does not matter.

We right now have very good test network coverage across all provinces to work with our testing services and we're not anywhere close to our capacity right now. So in terms of colliding test dates or capacity issues we definitely don't have issues on those fronts and the new dates also have been already factored into our numbers.

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**Adele Mao** - *Susquehanna International - Analyst*

Okay, that's helpful. Also, I want to ask your latest [views on the] major earthquake in China. We see some exams are currently [on hold] in several impacted provinces. Have you factored that into the June quarter?

**Carl Yeung** - *ATA Inc. - CFO*

No. As of yet, we do not expect any impact to our business for the June quarter. This is because the relationship is that all the fees for tests are paid already. For example, for China Banking Association have been paid and it's sitting in our accounts.

Obviously, there's no way to refund that fee but as a good corporate citizen we will for the provinces involved - affected, for any test candidate we will make available the current test date and if they cannot make that test because of any reasons due to the tragedy in China, we will reschedule a free test for them later on without charging them any fees.

**Walter Wang** - *ATA Inc. - President*

Together the bank association or the --

**Carl Yeung** - *ATA Inc. - CFO*

Yes and this will be a combined effort with the test sponsors as well as our testing channels. So we may incur in terms of financial impact a slightly bigger cost, but not as much because as we talk to our test channels since the test sponsors will be doing the tests for free -- we will be doing the tests for free, the test channel partners will unlikely to charge ATA to provide some of their help in this tragedy right now.

**Adele Mao** - *Susquehanna International - Analyst*

Great. That's very helpful. Thank you very much.

**Operator**

(OPERATOR INSTRUCTIONS)

We have no further questions. I would now like to turn the call over to Carl Yeung for closing remarks.

**Carl Yeung** - *ATA Inc. - CFO*

Thank you, Erica. Number one, we believe that we have delivered a very good quarter and overall a very good fiscal year in full. Again, these numbers are preliminary but from a growth and profitability perspective, I think we have delivered right in line in terms of our expectation. And we thank you to all the participants on the call for participating. If anyone would like to visit ATA, you're always welcome and feel free to contact us and we look forward to reporting the next quarter again. Thank you.

**Walter Wang** - *ATA Inc. - President*

Thank you.

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**Kevin Ma** - ATA Inc. - CEO

Thank you.

**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Everyone have a great day.

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