

FINAL TRANSCRIPT

Thomson StreetEventsSM

ATAI - Q3 2009 ATA Inc. Earnings Conference Call

Event Date/Time: Feb. 13. 2009 / 8:00AM ET

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

CORPORATE PARTICIPANTS

Ed Job

CCG - IR

Kevin Ma

ATA Inc. - Chairman, CEO

Walter Wang

ATA Inc. - President

Carl Yeung

ATA Inc. - CFO

CONFERENCE CALL PARTICIPANTS

Mark Zgutowicz

Piper Jaffray - Analyst

Adele Mao

Susquehanna International - Analyst

Paul Keung

Oppenheimer - Analyst

John Cho

Merrill Lynch - Analyst

Tian Hou

Pali Capital - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter and Fiscal Year 2009 ATA Incorporated Earnings Conference Call. My name is Katie, and I will be your coordinator for today. At this time, all participants will be in a listen-only mode. We will be conducting a question-and-answer session toward the end of this conference.

(Operator Instructions)

I would like to now hand the call over to Mr. Ed Job. You may proceed, Mr. Job.

Ed Job - CCG - IR

Thank you, operator. Good morning and good evening and welcome to ATA's Third Quarter Fiscal Year 2009 Earnings Conference Call. With us today are ATA's Chairman and 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.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

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 February 13th, 2009. ATA assumes no obligation to update these projections in the future as market conditions may change.

To supplement its financial results presented in accordance with US GAAP, management will make reference to certain non-GAAP financial measures which the Company believes provides meaningful additional information to understand ATA's operating performance. A table reconciling non-GAAP measures to the nearest GAAP equivalent can be found on the earnings press release issued earlier today.

For those of you 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. Mr. Ma, you may --

Kevin Ma - ATA Inc. - Chairman, CEO

Thank you, Ed. Welcome everyone, and thank you for joining us today. In the nine months ended December 31, 2008 of our fiscal year 2009, our net revenue grew 31% over the same period in fiscal 2008 to RMB187.9 million and already surpassed our full fiscal 2008 revenue of RMB172 million. We finished the third quarter with a 38% growth in our core testing business, evidencing the solid fundamentals of our business model.

However, we experienced further delays in the implementation of the Internet cafe contract with the Ministry of Culture and resulted in less exciting total net revenue growth for the quarter. This internet cafe licensure program was expected to be a strong contributor to our third quarter, as well as our fiscal year 2009 results, but have continued to experience unexpected setbacks due to pending regulation to support the launch. Looking forward, we continue to expect that this contract will make a significant contribution to our growth once it is implemented.

The highlights for the first nine months fiscal year 2009 include net revenues were up 31.4% over the same period of fiscal year 2008 to RMB187.9 million. Net income increased by 34% over the same period of fiscal year 2008 to RMB34.7 million. Basic and diluted earnings per common share were RMB0.76 and RMB0.74 respectively. Basic and diluted earnings per ADS were RMB1.52 and RMB1.48, respectively. Our cash position at the end of the quarter was equivalent to \$2.20 per ADR, and we carried no debt.

The highlights for the third quarter of fiscal year 2009 include net revenues were slightly up year-over-year to approximately RMB67.8 million. Net income decreased year-over-year to approximately RMB13.9 million. Basic and diluted earnings per common share were RMB0.30. Basic and diluted earnings per ADS were RMB0.61 and RMB0.60, respectively.

As we move into calendar 2009, we will sharpen our focus on our core computer based testing services to leverage our strong competitive advantages in this space. As a result, we have suspended our educational program cooperation plan with Tsinghua University and redeployed our sales effort towards exciting products such as HR assessment.

Our pipeline computer-based testing service contracts remain strong with opportunities both within the government and the private sector. In the immediate future we look forward to the rollout of our Cambridge Young Learners English program, as well as our HR assessment services in the upcoming quarters. With that, I will now turn the call over to Walter who will provide you with a business update, and Carl, who will discuss our financial results for the quarter.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

Walter Wang - ATA Inc. - President

Thank you, Kevin, and welcome to everyone joining us on the call today. Although we experienced further setbacks with the implementation of the contract with Ministry of Culture, which resulted from events outside our control, we are very pleased with what we have achieved in the first nine months of the fiscal year and with the strong performance of our core computer-based testing business, which was up 38% in the quarter, compared to the same period last year.

Our core business has continued to benefit from long term growth drivers that we expect will support the growth of our business for many quarters and years to come. We delivered a total of 4.4 million tests at an average revenue per test of RMB27.2 for the first nine months, which was a record even for any prior full fiscal year.

For the third quarter, ATA delivered approximately 1.5 million tests, an overall increase of 51% over the same period of last year. The number of tests delivered to the China Banking Association grew 87% to 413,000 test takers, compared to the same period last year. The number of tests delivered for the Securities Association of China grew 27% to 406,000 test takers, compared to the same period last year, which was mainly due to the new Broker Professional Qualification title. Because of the large number of unlicensed brokers in the securities industry, we expect this test will become a strong contributor to our revenue growth in the periods ahead. Our Ministry of Labor test takers also increased a healthy 11% to 222,000 test takers.

Our overall financial sector-related test revenue and volume in the December quarter increased by 39% and 41% respectively amidst the global financial sector crisis, driven by strong demand from the banking, securities and futures industries. This increase has been due to a combination of two factors.

Firstly, regulators are enhancing the regulatory requirements with new licensure programs to ensure jobs are taken up by qualified professionals. One good example is the Broker Professional Qualification exam we recently launched for the Securities Association of China. Secondly, we saw a strong voluntary demand from the industry professionals seeking professional qualification as a differentiator in the competitive job market.

China is facing an unprecedented challenge in economic growth, driven by what is happening in the rest of the world. This year alone, 6.1 million university graduates will be joining the labor force while the current labor market continues to tighten. This directly results in people searching for any edge to be attractive to employers, including the use of ATA's wide range of licensure and certification programs in the finance, insurance, IT and blue-collar sectors, as well as our soon-to-be-launched professional English certification programs.

In the quarter, we continued to make progress developing the very promising HR assessment market. Although this sector performed weaker than expected earlier in the year, we have successfully delivered a total of 12,000 tests to HuaXia Bank and Zhejiang Commercial Bank. Shortly, we will be launching our exciting full HR service platform that will reach employers across all verticals to help them with their new hire and internal staff assessment needs.

Our test-based education services segment was flat for the nine months fiscal 2009 and for the quarter. We believe there is a limited market potential for our current content in test-based education program offering and thus have made the decision to discontinue our growth efforts in this area. As Mr. Ma mentioned, our core computer-based testing services business benefits from strong and sustainable competitive advantages built around our proprietary technology, track record of execution and distribution capabilities.

We believe that focusing our capital, management attention and staff resources in the computer based testing space offers the best return on our investment, and is in the best interest of our shareholders. We have already transitioned our current test-based education sales team towards our soon-to-be-launched HR assessment product which we believe can deliver more attractive growth and margins going forward.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

Finally, our test preparation and training solutions targeted at professional licensure and certification tests was down both for the nine months 2009 and for the quarter. This is because we recorded no sales of our NTET preparation software in the December quarter. As we noted previously, sales of this product depend on timing of government budgets and therefore sales may be lumpy from quarter to quarter. Our online preparation revenue in turn increased by 134% in the December quarter compared to the same period of last year.

We expect to continue to ramp growth for our online preparation services as we replicate the same model from the current securities industry to other verticals such as banking, labor for the blue-collar sectors and other potential sectors that we will provide testing services. With that, I will now turn the call over to our CFO, Carl Yeung, who will go over our financial results in more detail.

Carl Yeung - ATA Inc. - CFO

Thank you, Walter. We are pleased that our first nine months of fiscal 2009 already surpassed our full fiscal 2008 results. In highlight, net revenue was RMB187.9 million, up 31.4% from RMB142.9 million in the comparable period of 2008. Gross profit increased by 25.9% to RMB112.2 million, from RMB89.1 in the comparable period of 2008 (sic see script).

Income from operations increased by 30.3% to RMB39.4 million, up from RMB30.2 million in the comparable period in 2008. Net income increased by 34% to RMB34.7 million from RMB25.9 million in the comparable period of 2008. Net income excluding share based compensation expenses and foreign currency exchange gain or losses, which is non-GAAP, increased 21.2% to RMB38.6 million from RMB31.9 million in the comparable period of 2008.

Basic and diluted earnings per common share were RMB0.76 and RMB0.74 for the nine months ended in December 31, 2008 compared to RMB1.18 and RMB0.73 for the nine months ended on December 31, 2007. Basic and diluted earnings per ADS were RMB1.52 and RMB1.48 for the nine months ended in December 31, 2008, compared to RMB2.36 and RMB1.45 for the nine months ended on December 31, 2007.

Basic and diluted earnings per common share excluding share based compensation expenses and foreign currency exchange gain or losses were RMB0.85 and RMB0.82 and basic and diluted earnings per ADS excluding share based compensation expenses and foreign currency exchange gain and losses were RMB1.70 and RMB1.65.

Now, with that, I will now discuss in more detail our third quarter results. Due to further delays in the implementation of Ministry of Culture's Internet cafe licensure program, we withdrew our guidance for the quarter as well as for the fiscal 2009 full year on January 26th. The following are the financial results of our operation for the December quarter:

Total revenue grew approximately 1.7% year-over-year to RMB67.8 million. Net revenue from testing services increased by approximately 37.5% to RMB51.2 million for the quarter. The number of tests delivered was up by 51% year-over-year to approximately 1.5 million tests. In the quarter, we delivered 413,000 tests for China Banking Association, compared to 221,000 in the same period of last year.

During the quarter, we were also pleased with the successful launch of our new Broker Professional Qualification test title for the Securities Association, which contributed 99,000 new test takers to our overall mix. The total number of test delivered for the securities industry increased to 406,000, compared to 320,000 in the same period of last year.

We are very pleased with the strength of our finance sector vertical despite the slowdown in the global economy, and we continue to expect positive result from this vertical in the quarters ahead. Average price per test delivered was approximately RMB35, down slightly from RMB38.4 in the comparable period last year. This was due to overall lower banking revenue per test in fiscal 2009 compared to fiscal 2008, for the reasons we discussed in our prior quarters, and as well as due to new contribution of 182,000 middle and high school teachers' exams that has average revenue of only RMB4.8.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

Net revenue from test preparation and training solutions declined by 83.5% in the period to RMB2.4 million from RMB14.8 million as we did not make any sales of NTET software in the quarter. As Walter mentioned, sales of NTET software depends on timing of government budget and are lumpy from quarter to quarter.

Net revenue from test-based education services was flat at RMB12.1 million in the third quarter, representing 17.9% of total net revenue. Gross profit declined 15.4% year-over-year to RMB38.6 million. Gross margin was down to 57% from 68.5% in the comparable period in 2008. Gross margin contraction for the quarter was driven by lower contribution from test preparation and training solutions, which has the highest margin compared to testing and test-based education programs.

Total operating expense increased by approximately 6.5% year-over-year to RMB25.8 million, primarily driven by general and administrative expenses. General and administrative expenses increased by an estimated 21.5% year-over-year to RMB14 million. This increase was primarily related to higher receivables balance resulting in higher bad debt provision we made in line with our accounting policies.

Sales and marketing expenses were down 6.5% to RMB7.8 million, as a result of lower share based compensation and lower agent fees paid to distributors of our educational programs. Research and development expenses were down by 8.5% year-over-year to RMB4.0 million, primarily due to RMB8.8 million in capitalized software developed for long-term use.

Income from operations was down 40% to RMB12.9 million. Our operating margin in the quarter was 19%, compared to 32.2% in the same period of last year. In the quarter, ATA Testing was re-certified as a High and New Technology Enterprise under the New Enterprise Income Tax Law in December 2008. As a result, ATA Testing's income tax rate has been adjusted to 15% for the calendar years from 2008 to 2010. This qualification will be reviewed every three years.

Since ATA Testing has paid income tax base on a 25% tax rate during the first three quarters in 2008, we have received a RMB3.5 million tax refund to compensate for the overpayment on December 29, 2008.

Net Income for the quarter was approximately RMB13.9 million, compared to RMB17.4 million in the comparable period last year. Basic and diluted earnings per common share amounted to RMB0.30 and basic and diluted earnings per ADS were RMB0.61 and RMB0.60, respectively.

Net income, excluding share-based compensation expense and foreign currency exchange gains or losses was an estimated RMB15.2 million for the third quarter 2009. Basic and diluted earnings per ADS excluding share-based compensation expense and foreign currency exchange gain or losses were RMB0.67 and RMB0.66, respectively.

As of December 31, 2008, ATA had a cash position RMB340 million, which is approximately \$50 million, working capital of RMB354 and no debt. Shareholders' equity at the balance sheet date was RMB393.7 million, up from RMB363.1 million at the end of fiscal year 2008. Cash flow from operations for the period was RMB7.4 million and capital expenditure was RMB9.4 million, mainly for the development of software for long-term use.

Now, turning over to outlook, because of the difficulty in predicting the timing of implementation of new contracts and projects in the computer-based testing market, we have decided to adopt a more conservative approach to guidance that is based solely on the organic growth of our existing contracts. We will no longer incorporate expected revenue generation opportunities that are contingent on uncertain contract implementation schedules.

For the fiscal fourth quarter 2009, we expect net revenues will be in the range of RMB26 million to RMB28 million, representing year-on-year reduction in the range of 10% to 4%. This translates to expected net revenues for the fiscal year ended March 31, 2009, to be in the range of RMB214 million to RMB216 million, which is expected to represent a 24% to 25% growth over fiscal year 2008.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

Our preliminary guidance for net revenues for fiscal year ended March 31, 2010, will be in the range of RMB260 million to RMB280 million, which would represent 20% to 26% growth over our forecasted net revenues for full fiscal year 2009. This is ATA's current and preliminary view, which is subject to change. Our results of operations for the fiscal third quarter 2009 are not necessarily indicative of our operating results for any future periods. Now I'll turn the call back over to Walter for some closing remarks.

Walter Wang - *ATA Inc. - President*

Thank you, Carl. In summary, despite the challenging environment and disappointing delays in the execution of important contracts, the underlying fundamentals of our business remain strong, and we continue to see significant opportunities ahead to continue to penetrate the Chinese market for computer-based testing services.

Looking at the near-term opportunities, we are delighted to report many favorable developments, although they are not part of our revenue guidance. One, we continue to make progress in the discussion with Ministry of Finance to computerize accounting test which currently tests over 10 million people a year on paper.

Two, our relationships with Ministry of Justice and Ministry of Health remain strong and we believe a breakthrough to launch computerized testing for these potentially large clients within the next 18 months can be achieved.

Three, we have strengthened our insurance sector testing opportunity, which will expand our computerized testing service from regional level to nationwide level as Insurance Association of China looking towards standardizing their licensure program. Four, we have begun to discuss with the Security Officer branch of the Police Department the launch of a nationwide program to test and license security guards throughout China

The long term trend to computerize tests and to outsource testing service remains a key driver of our success. We look forward to continuing to expand the number of test titles we offer and verticals that we serve as we create lasting value to our shareholders. With that, we would now like to open the call to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Mark Zgutowicz from Piper Jaffray. Please proceed.

Mark Zgutowicz - *Piper Jaffray - Analyst*

Hello, first question, just hoping you could give an update on any recent discussions you've had with the Ministry of Culture as to the contract implementation.

Carl Yeung - *ATA Inc. - CFO*

Walter, why don't you provide that update?

Walter Wang - *ATA Inc. - President*

The document has been submitted to the highest level of the officer of the Ministry of Culture, and pending on his approval, and we don't know the exactly date of that yet.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

Mark Zgutowicz - Piper Jaffray - Analyst

Okay, and then just in terms of your FY '10 guidance, I'm just curious. You're going to maybe talk a little bit about visibility there. I understand it's -- at least my understanding is it's contracted business, but maybe if you could just give some idea as to what variables may be in play to not meet that guidance? And, also, if you could give some direction in terms of expected operating margin performance for the year.

Walter Wang - ATA Inc. - President

Okay.

Carl Yeung - ATA Inc. - CFO

I can talk about that. Mark, thanks for your question. For fiscal 2010, we -- in our guidance, we do not factor even Ministry of Culture, although we believe opportunities should be realized in the fairly soon upcoming quarters. We also do not factor in any potential revenue from Ministry of Finance or health or legal or even the security guards opportunity. Basically, the current numbers only account for the banking opportunity that's already existing, labor, securities and Ministry of Education.

There is also, of course, a test-based education service we actually modeled down, since we have diverted our attention into our soon-to-be-launched HRS platform. We have made a small assumption on our HR platform, because it does not require any government approvals and does not depend on any legal approvals, either, so we have made small assumptions there. So that's the only risk I can foresee.

Of course, the number of test takers can fluctuate in terms of each existing opportunity. It can be bigger, or it can be smaller, but in our track record, for any existing opportunities, we have been doing quite well in terms of finishing where we expect from the beginning of the year.

Mark Zgutowicz - Piper Jaffray - Analyst

Okay, great, and then just one final question. I was hoping you could maybe provide a trend line as to what we might expect on the average revenue per test in 2010, and specifically are there any changes related to any existing contract pricing that might negatively impact that. Sort of what should we expect for a trend line on that metric?

Carl Yeung - ATA Inc. - CFO

Let me first respond to your second part of your first question, which is operating margin. We do not provide any operating margin guidance. And then for the average revenue per test, we believe, and this has been a pretty consistent belief since the Company has gone into the public markets, the pricing between existing customers is extremely stable.

And we actually expect a small uptake from our current average revenue, which will be announced when we finish fiscal 2009 to average revenue per test of somewhere around RMB28 to RMB29 for fiscal 2010. This, of course, again, does not account for any new potential launches, even including Ministry of Culture.

Mark Zgutowicz - Piper Jaffray - Analyst

Okay, great, thanks very much.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

Operator

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

Adele Mao - *Susquehanna International - Analyst*

Hi, just want to get a little bit more comfort in terms of your guidance. Let's say what is the probability that an existing customer who has already had some testing schedule set up for some reason decided to cancel or postpone one of the test titles. And, should that happen, how early in advance would you know?

Carl Yeung - *ATA Inc. - CFO*

We would typically know at least three to four months in advance, so if any situation like that happens, we will provide information to the public, as well as our shareholders. In terms of the event happening, it's obviously a possibility, but we believe that possibility is very low, reason being most of our test titles are fairly new and looking at the history, titles are really discontinued when the content is no longer relevant.

And in terms of losing a complete ministry that has a working relationship with ATA, that we believe is fairly remote, because in terms of the operation, in terms of the whole launch of the test, it's basically outsourcing handled by ATA. As we discussed before, it's extremely difficult for a client to not work with us and go out and build their own test centers, the technology and really bring the headache to their own tables.

Adele Mao - *Susquehanna International - Analyst*

Okay, thanks, Carl. That's very helpful. My second question is that could you discuss the timeline with the launch of your Cambridge Young Learners English program, and if there's any sort of approval that may stand in the way, or any factors that are not in ATA's control.

Carl Yeung - *ATA Inc. - CFO*

Sure. I can let Walter update everyone on that, on the Cambridge Young Learners English program launch.

Walter Wang - *ATA Inc. - President*

We will launch the Cambridge Young Learners program together with NETA, the National Educational Testing Association at the beginning of March. And we don't -- we don't need any government approval for this program, because this program is a commercial program, and also we already signed the agreement with the National Educational Testing Authority already.

Carl Yeung - *ATA Inc. - CFO*

And to supplement Walter's comment, in terms of our guidance for fiscal 2010, we only model in less than RMB2 million for the opportunity, on a very, very extremely conservative basis. We believe this opportunity obviously is much more than that.

Adele Mao - *Susquehanna International - Analyst*

Okay, that's very helpful. Thank you.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

Operator

Your next question comes from the line of Paul Keung from Oppenheimer. Please proceed.

Paul Keung - Oppenheimer - Analyst

Good evening, gentlemen. A question about the programs that are not in your guidance. I was curious if you could just give us, coming from a standpoint of the potential size of market of test takers of those programs, again. And, two, if you could maybe just segment those, those that you think have the potential to be something in the next 12 months versus those that could take longer as you focus on these areas?

Carl Yeung - ATA Inc. - CFO

Okay, Walter, do you want to take that question, or do you want me to respond?

Walter Wang - ATA Inc. - President

Maybe you can -- you may want to answer this question.

Carl Yeung - ATA Inc. - CFO

Okay. The first one, which is very obvious, is the Internet cafe contract. The, again, number of Internet cafes in total, including officially recognized and non-recognized ones are somewhere around 300,000 Internet cafes, and on a very conservative basis, there is an immediate addressable market of around 100,000 Internet cafes. We believe we can generate somewhere after the split with the government portion, we can generate about RMB1,000 to RMB1,200 for each Internet cafe. And, obviously, it has been subjected to quite significant delays, but actually the contract has been with us since beginning of 2008.

We are now waiting for the regulation announcement to support the launch of this, and we don't believe that it's that far away, so it should be definitely within the 12 months expectation. In terms of the Ministry of Finance, it's also something that we think we can achieve in the next 18 months.

The addressable market is, like Walter mentioned already earlier, it's about 10 million test takers a year doing these exams on paper, so this is a very sizable opportunity. Now, we don't believe all 10 million will convert to computer based in the first year, but the opportunity is large enough that even 20% to 25% conversion will mean a significant revenue opportunity for us.

And then there is the Ministry of Justice exams. We are really at the near pretty close, final stage, and, again, it's also on a very conservative basis something that can happen within 18 months. Walter, I think the Justice Department exam is somewhere around 350,000 test takers a year, right?

Walter Wang - ATA Inc. - President

Yes. Correct.

Carl Yeung - ATA Inc. - CFO

Yes, currently on paper. And then there is Ministry of Health and they already use our test registration systems and, again, we believe this is something that can be done within 18 months. Now, for the security guards, I actually want Walter to provide

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

that update. And also, sorry, just before I finish that, the Ministry of Health, they test about 80,000 people a year for the National Medical Exam, which includes doctors.

Walter Wang - ATA Inc. - President

We are still waiting for the regulations from the government for that program, and we don't know when they will approve the regulations yet.

Carl Yeung - ATA Inc. - CFO

Yes, this is for the security guards.

Walter Wang - ATA Inc. - President

Security guards, yes.

Carl Yeung - ATA Inc. - CFO

The regulation actually has to be approved by the National Council, the highest level of the government. Thus, therefore there is significantly more risk to that, timing wise, and therefore it's difficult for us to say it's 12, 18 months or more. And, again, all of these are no longer part of our guidance going forward.

Paul Keung - Oppenheimer - Analyst

Great, thanks for the update again.

Operator

Your next question comes from the line of [John Cho] from Merrill Lynch. Please proceed.

John Cho - Merrill Lynch - Analyst

Good afternoon. I just want to ask how confident you are in the revised guidance, and what is your view for next fiscal year '10, 2010? Thank you.

Carl Yeung - ATA Inc. - CFO

Right. Our current fiscal 2010 guidance, it's based on -- to be very, very honest, and we like to do that, mistakes that we have learned from and therefore we don't factor in anything that is subject to regulation, government approvals, such things like that. For anything that we initiate on our own that does not require government approvals, such as the Cambridge Young Learner program or the HR platform that we expect to launch, we made a very, very conservative budget for that.

The current guidance of RMB260 million to RMB280 million represents only 20% to 26% growth over our fiscal 2009. If you look across our main drivers of our business, even in fiscal 2009, such as banking, securities, the growth rates there are much higher than that. So even the worst-case scenario, we think this is something that's most likely to be achieved.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

John Cho - Merrill Lynch - Analyst

Okay, how about the '09 guidance that you revised down?

Carl Yeung - ATA Inc. - CFO

Sure. For '09, we're only one quarter to finish, and for that we have a guidance of RMB26 million to RMB28 million for the fourth quarter, which we actually budget at a reduction from 10% to 4% from the year before. So despite that the Company's business is actually growing quite healthily, we don't see any sort of setbacks or anything. And then, again, this does not account for any new contracts, so this we believe is a fairly conservative number.

John Cho - Merrill Lynch - Analyst

Thanks, Carl.

Operator

(Operator Instructions). Your next question comes from the line of Tian Hou from Pali Capital. Please proceed.

Tian Hou - Pali Capital - Analyst

I just have a couple of questions related to the model, so if, Carl, you can give me some answers on that. The first one regarding your 2010 guidance. Is it possible to give us a rough let's say guidance regarding the revenue composition, what percentage of revenues comes from test services and what percentage comes from test education services and also the rest?

Carl Yeung - ATA Inc. - CFO

Sure. I mean, these are again preliminary estimates. We don't -- we cannot do exact numbers right now, but just a rough idea. Let me just do this. So we are looking at, on a testing service side, somewhere around 65% to 70% to be the total revenue, and for the test-based education, we're looking at somewhere around 14% to 15%, and for the test preparation, also around 14% to 15%.

Tian Hou - Pali Capital - Analyst

Okay, so the second question is regarding your expense. So if I look at the past, your expense is quite stable. So, going forward, what's the trend, what's the trend going to be? Are you going to hire aggressively in like a sales, marketing, R&D, G&A or even of those areas, where the trends will maintain?

Carl Yeung - ATA Inc. - CFO

Yes, the Company believes on the scalable operating business our model sort of accounts for a very, very slow growth in operating expenses, as evidenced by what we have done in the first nine months already in 2009. But there are some opportunities that we will do investments in. For example, we will continue to expand on R&D offers into 2010, as we develop more advanced technologies. Some of the things that we are looking at are potentially speech engines, and to keep sort of at the top of the game, even on a global basis.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

In terms of sales and marketing, we expect to -- when we launch these non-government businesses, like the English Young Learners program, and also our HR platform, we need to invest in sales and marketing to support the growth of that business. So there will be some expected increase there.

But, overall, the total operating expense will grow at an even smaller rate than the total revenue. So, indirectly, answering Mark's question earlier, we hope and we expect our operating margin should actually improve.

Tian Hou - Pali Capital - Analyst

Okay, so the last question will be, in the past, management indicated you are looking into some acquisition opportunities. I just wonder where we stand on that front.

Carl Yeung - ATA Inc. - CFO

There are still live discussions. We will update the community when there is a material agreement achieved, and we're actually looking towards some very exciting things, but, obviously, we would do those at a reasonable return to our company and to our shareholders and to markets where it makes sense from competitive advantage and synergy perspective.

Some -- one of the potential acquisitions, or it's not specifically an acquisition, but a cash licensing program, involved actually acquiring some pretty interesting international content to add to our current arsenal of licensing programs that we have.

Tian Hou - Pali Capital - Analyst

Okay. The last question is, you said a share repurchase program -- I know in terms of total amounts, it's not that huge, but in terms of total shares it's supposed to be meaningful. I just wonder where we stand in that front.

Carl Yeung - ATA Inc. - CFO

The share repurchase program is set at \$5 million, and it will continue to be live until it's finished, or it will stop at the end of December 31st, 2009, so we still have many months to go. We have to follow current SEC regulations in terms of how many shares we can buy every day. It's based on average trading volume, or historical average trading volume, and we also follow the Company's internal policy, insider trading policy, so we do not engage in share repurchase for the 15 days prior to any quarter closing and until the second day after we release our earnings.

Tian Hou - Pali Capital - Analyst

Okay. So any plans to participate in any conferences going forward?

Carl Yeung - ATA Inc. - CFO

Yes. I will actually be in Los Angeles by Monday.

Tian Hou - Pali Capital - Analyst

Oh, I see.

Feb. 13. 2009 / 8:00AM, ATAI - Q3 2009 ATA Inc. Earnings Conference Call

Carl Yeung - ATA Inc. - CFO

To participate in an investor conference around the area.

Tian Hou - Pali Capital - Analyst

Okay. Okay, thank you.

Carl Yeung - ATA Inc. - CFO

Thank you, Tian.

Operator

At this time, I'm showing you have no further questions. I would like to now turn the call back over to management for closing remarks.

Walter Wang - ATA Inc. - President

Carl?

Carl Yeung - ATA Inc. - CFO

Yes, again, this is the end of our Fiscal 2009 Third Quarter Earnings Call. We thank you all for your participation and we look forward to reporting more exciting growth ahead and new contract opportunities and thank you all for getting online.

Operator

Ladies and gentlemen, thank you for your participation in today's conference call. Have a wonderful day.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Thomson Financial. All Rights Reserved.