

# FINAL TRANSCRIPT

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## **ATAI - Q4 2009 ATA Inc. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Kevin Ma**

*ATA Inc. - CEO*

**Walter Wang**

*ATA Inc. - President*

**Carl Yeung**

*ATA Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**George Neil**

*CCG Investor Relations - IR Representative*

**Mark Marostica**

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**Adele Mao**

*Susquehanna International - Analyst*

**Jeff Lee**

*Signal Hill - Analyst*

**Echo He**

*Oppenheimer - Analyst*

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## PRESENTATION

**Operator**

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

(Operator Instructions)

I would now like to turn the presentation over to your host for today's call, Mr. George Neil with CCG. Please proceed.

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**George Neil** - *CCG Investor Relations - IR Representative*

Thank you, operator. Good morning and good evening, everyone, and welcome to ATA's Fourth Quarter and Fiscal Year 2009 ATA Incorporated 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.

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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 14th, 2009. ATA assumes no obligation to update these projections in the future as market conditions change. Management's remarks today outline ATA's preliminary results for the fourth quarter and 2009 fiscal year, ended March 31st, 2009.

Upon completion of an audit of these results, which should occur by August, final audited financial results for the periods noted will become public. Accordingly, please note that today's figures are preliminary and may change between now and completion of the audit process.

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, with that, it is my pleasure to turn the call over to ATA's CEO, Mr. Kevin Ma.

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

Thank you, George. Welcome, everyone, and thank you for joining us today. In the fiscal year ended March 31st, 2009, our net revenue grew 27.6% over net revenue for fiscal 2008, to RMB219.6 million.

This exceeded the top end of our last fiscal year revenue guidance of RMB216 million. Other highlights for fiscal year include net income increased by 52% over the same period of fiscal year 2008 to RMB30.7 million. Basic and diluted earnings per ADS were RMB1.35 and RMB1.33, respectively.

Our cash position at the end of the quarter was equivalent to \$2 per ADR and we carried no debt. We are pleased to announce these results, achieved mainly through organic growth as we did not close any major government outsourcing contracts in fiscal 2009. This is a testament to the strong, sustainable growth platform that we have already established.

As we made strategic inroads into the private testing sector, via TOEIC and HR Select, we will continue to make progress with key ministries, such as health culture, finance, legal and health and we believe we can expect a stronger continued performance in our key financial metrics as we launch new tests, expand our market reach and continue to steadily penetrate the market for computer-based testing in China.

Our distribution business model benefits from significant long-term trends, including heightened competition in 11 markets, increased regulatory requirements of professional licensure, as well as from a shift from paper-based to computer-based testing. We are well positioned to benefit from these trends, with the largest footprint of test centers that offer convenience to our customers, a robust technology that can handle high-volume nationwide tests and a proven track record of execution. We are succeeding in a time when global financial crisis by helping millions of test takers to succeed in their own lives and by helping commercial and governmental entities to reach their objectives and deliver on their commitments.

I would like to take this opportunity to thank our shareholders for their support throughout the year. We will continue to work hard to create a lasting value for our shareholders as we focus on monetizing the large computer-based testing market in China. With that, I will now turn the call over to Walter, who will provide you with a business update, and then to Carl, who will discuss our preliminary financial results for the fourth quarter 2009.

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

Thank you, Kevin, and welcome to everyone joining us on the call today. We are pleased with the progress we have made in the execution of our strategy. As we have previously announced, during the quarter we reached an exclusive agreement with the Educational Testing Service market, making us exclusive master distributor in China of the ETS Test of English for International Communication. This key strategic alliance opened an enormous market segment to us as TOEIC shapes up to become a standardized English assessment tool in China, similar to what TOEFL has achieved in the academic space.

We are honored and energized to partner with ETS, the largest educational research and assessment organization in the world in this exciting initiative. On March 30th, we also launched our enterprise personnel selection solution, trade named HR Select. The core of HR Select's solution is the bundling of test tools designed around competency models, providing enterprises with our market-leading test service to assess and select the right candidates, systematically reducing risk of wrong hiring.

We conducted research on 150,000 different job skill sets, covering several areas of competency, including IT, foreign languages, finance, accounting, management and legal. Over 600 job positions have been modeled with a test item bank, containing millions of test questions. These models are built in part with leading international standardized assessment tools, such as TOEIC from ETS and aptitude tests from SHL

We are introducing HR Select in 18 cities nationwide right now. Since its launch at the end of March, we have already accumulated a user base of over 500 enterprises. This is a very encouraging sign of market acceptance for this kind of service. In launching HR Select, we were able to quickly repurpose resources that had been devoted previously to our lower-growth educational services.

We are expecting HR Select will become an important growth driver for our business in the year ahead and help us diversify into the private testing sector and rely less on government decisions. During the full fiscal year of our core testing business delivered a total of 5.1 million tests at average revenue per test of RMB27.2, compared to 3.6 million and RMB21.5 in fiscal 2008, respectively.

For the seasonally slow fourth quarter, ATA delivered approximately 677,000 tests, an increase of 13.5% over the same period of last year. Average revenue per test increased to RMB27, compared to RMB19.2 in the comparable period last year. The number of tests delivered for the Securities Association of China grew 206.2% to 367,000 test takers, compared to the same period last year, which was mainly due to the new brokers and funds sales professional titles. Our overall financial sector-related test revenue and volume in the March quarter increased by 167.5% and 169.6%, respectively. We remain confident that this vertical will continue to drive our growth in the quarters ahead, despite the global financial crisis. Our test-based education services declined in fiscal 2009 in the quarter. As we mentioned previously, we have refocused our capital management attention and staff resources to our HR assessment service, which we believe will deliver more attractive growth and margins going forward.

Finally, our test preparation and training solutions targeted at professional licensure and certification tests, for the fiscal year 2009, decreased by 32.1% year-over-year, mainly driven by the decrease of sales of NTET preparation software. With that, I would now turn the call over to our CFO, Carl Yeung, who will go over our financial results in

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

Thank you, Walter. As Kevin noted earlier, on a preliminary basis, pending our audit, fiscal year net revenue of RMB219.6 million represented growth of 27.6% over prior-year net revenue and exceeded our guidance. Preliminary gross profit increased by 21.2% to RMB127.5 million from RMB105.1 million in the comparable period of 2008. Income from operations increased by 48.4% to RMB34.8 million, up from RMB23.4 million in the comparable period in 2008.

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Net income increased by 52.2% to RMB30.7 million from RMB20.2 million in the comparable period of 2008. Net income, excluding share-based compensation expenses and foreign currency exchange losses, which is a non-GAAP measure, increased 28.8% to RMB35.6 million from RMB27.7 million in the comparable period of 2008.

Basic and diluted earnings per ADS for the fiscal year ended in March 31, 2009, were RMB1.35 or \$0.20 and RMB1.33 or \$0.19, respectively. Basic and diluted earnings per ADS excluding share based compensation and foreign currency losses for the fiscal year ended in March 31, 2009, were RMB1.57 or \$0.23 and RMB1.54, or \$0.23, respectively.

With that, I will now discuss in more detail the fourth quarter ended March 31, 2009. Preliminary net revenues grew approximately 8.8% year-over-year to RMB31.7 million. Preliminary net revenues from testing services increased by approximately 59.1% to RMB18.3 million for the quarter.

Overall number of tests delivered increased by 13.5% year-over-year to approximately 677,000 tests, compared to 597,000 tests in the same period last year. Average price per test delivered was approximately RMB27, up 40.3% from RMB19.2 in the comparable period last year. This increase in average revenue per test was due to a significant increase in higher-priced tests delivered to the Securities Association of China and also for Educational Testing Services, ETS. The ETS test carries a revenue per test of RMB295.

Preliminary net revenue from test preparation solutions increased to RMB0.9 million from RMB0.4 in the same period last year. Preliminary net revenue from test-based education services decreased by approximately 33.3% to RMB10.4 million in the fourth quarter. Preliminary gross profit decreased by approximately 4.6% year-over-year to RMB15.3 million.

Gross margin was down to 48.1% from 54.9% in the comparable period in 2008, as a result of increase in amortization of software for internal use, and the decrease of profitability on testing service provided to MOHRSS, which is formerly the Ministry of Labor. What happened is the integration of the Ministry of Labor and Ministry of Personnel last year to form MOHRSS resulted in less publicity for their sponsored test and caused 57% decline in year-over-year revenue from this organization. While revenue declined, relevant fixed cost was maintained, resulting in lower gross margin for this area.

Preliminary total operating expense decreased by approximately 12.8% year-over-year to RMB20 million as a result of lower commissions, bonuses and share-based compensation in the period. Preliminary loss from operations was approximately RMB4.6 million, down from an operating loss of RMB6.8 million in the same period last year. Operating margin narrowed to a minus 14.5% in the quarter, from minus 23.3% in the year-ago period.

Preliminary Net loss for the quarter was approximately RMB4 million, compared to loss of RMB5.7 million in the comparable period last year. Basic and diluted loss per ADS was RMB0.18 or \$0.03. Preliminary net loss, excluding share-based compensation expense and foreign currency exchange losses, which is non-GAAP was estimated to be RMB3.0 million for the fourth quarter 2009, compared to RMB4.2 million in the same period last year.

Basic and diluted loss per ADS excluding share-based compensation expense and foreign currency exchange losses, which is again a non-GAAP measure, were RMB0.13 or \$0.02.

As of March 31, 2009, ATA had cash position of RMB310.5 million, which is \$45.4 million, and we carry no debt. Capital expenditures for the fourth quarter of fiscal year 2009 were RMB27.1 million. Or \$4 million mainly for the fee paid to ETS to obtain the distribution rights for the TOEIC exams.

Now we're turning over to outlook. For the fiscal first quarter 2009, which is the period in June 30th, 2009, we expect net revenues will be in the range of RMB76 million to RMB81 million, representing year-over-year growth in the range of 11% to 19%.

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ATA expects net revenues for the fiscal year ended March 31, 2010 to be in the range of RMB260 million to RMB280 million, which is expected to represent an 18% to 28% growth over fiscal year 2009. This, again, does not include new or unimplemented tests that require government decision making.

This is ATA's current and preliminary view, which is subject to change. Our results of operations for the fiscal fourth quarter 2009 are not necessarily indicative of our operating results for any future periods. Now I'll pass the call back over to Walter for some closing remarks on potential additional growth opportunities over the upcoming quarters.

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

Thank you, Carl. As we move into our fiscal 2010, our outlook is very positive, as we hope to build on our solid market position to continue to drive organic growth from our existing tests and to successfully convert our strong pipeline of opportunities in several areas.

For government related test programs, we are in discussion with China Banking Association to add potentially four more new titles by the second half of 2009. We have successfully closed a new relationship with the General Administration of Quality Supervision, Inspection and Quarantine to qualify national quality, commodity inspection and quarantine officers. We plan to complete a 22,000 people trial test program by June and target to launch the certification program in the second half of 2009.

We continue to maintain good relationship, making progress with Ministry of Culture. There is a high possibility that the test and training for Internet cafes will be launched within calendar 2009, pending on the issuance of regulatory guidelines. Ministry of Finance continues to be our top priority client with the largest revenue potential.

We aim to begin trial testing for Ministry of Justice in the area of Tianjin this year but the Ministry of Health relationship opportunity continues to be longer term. We are in discussion with the Insurance Association to computerize eight additional tests for delivery through ATA's platform and we are in the planning phase to launch a nationwide insurance professional qualification program.

Moving on to private sector clients: On the commercial B2B testing opportunities, we have gathered over 500 users of HR Select service over a period of one month after launch. We expect to continue to accumulate more active users and begin to see revenue by the September quarter. We also have 200-plus enterprise users that recognize TOEIC as part of recruiting process and expect the growth of TOEIC will contribute to a meaningful portion of our total revenue in Fiscal 2010.

On the consumer side, our Cambridge Young Learners English Program was successfully trial run in 10 provinces in China and we expect to see revenue contribution starting also in the September quarter. In addition, following the success of Securities Association, we are preparing to launch similar continuing education services for the Futures Association and Banking Association to expand the highly profitable and large addressable continuing education and test preparation opportunity.

In summary, we remaining focused on growing our business by adding new titles, entering new verticals, and providing related services in support of our computer-based testing business, and we remain highly optimistic about our company's outstanding opportunity to build lasting value for our shareholders. With that, we would now like to open the call to your questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). Our first question comes from the line of Mark Marostica of Piper Jaffray. Please proceed.

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**Mark Marostica** - *Piper Jaffray - Analyst*

Thank you, and nice job on the quarter.

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

Thank you, Mark.

**Mark Marostica** - *Piper Jaffray - Analyst*

My first question relates to the fiscal 2010 guidance, and I'm trying to get an idea for how seasonality plays into the equation of your guidance when you look at the quarterly progression of the major tests that will be administered throughout the fiscal year, how that lines up with the same quarterly progression in fiscal '09.

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

Sure. We expect to see similar sort of patterns in fiscal 2010 compared to 2009. One of the reasons is the big elephant client, the biggest client, continues to be expected to be China Banking Association and the two big test dates are for the June quarter and December quarter, so we expect the June quarter and the December quarter to be bigger than the other quarters.

**Mark Marostica** - *Piper Jaffray - Analyst*

And on that point, Carl, was that similar to fiscal '09?

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

That's correct.

**Mark Marostica** - *Piper Jaffray - Analyst*

Okay, great. And then you talked about the TOEIC opportunity being meaningful to your fiscal 2010 revenue. Could you give us a sense of the timing of any TOEIC revenue and also the magnitude that you're talking about?

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

Sure. We expected revenue to start rolling in starting in the June quarter, but we are a bit ahead of ourselves. That's why we overshot our guidance in this March quarter. We started integration a little earlier than expected and we actually generated of the total 31 million, we generated revenue in this quarter, 1.2 million was from the TOEIC exam.

Now, to give you a sense of the scope of this project, before the acquisition of the title by ATA, TOEIC was run by ETS in China and in itself, of the 70,000 people they test every year, last year they tested 70,000 people and it generated a revenue of RMB18 million.

So with us taking over, by adding this additional marketing, by tying additional relationships into the different government programs that we have, by more importantly offering this as an integrated part of our HR Select service, we expect to generate no less than what ETS did on itself. So 18 million is probably sort of a bottom line side that we're looking at for fiscal 2010.

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**Mark Marostica** - Piper Jaffray - Analyst

Onto the HR Select program, glad you mentioned that. Regarding your client list that you talked about signing up, can you give us an idea of your revenue model for HR Select? Is it subscription based, license? What type of backlog you have in terms of revenue opportunity? And, if any at all, what revenue expectation you've baked into your guidance for HR Select this year and when that could start materializing for you?

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

Again, as we mentioned, we expect revenue to start hopefully rolling in starting in the September quarter. Now, I'll let Walter discuss the charge plan for the HR Select, because he's the one that thinks about and works on this 24 hours a day.

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

Our HR Select, basically including covering two processes of the HR hiring process. The first part of the service is to help the HR manager to screen the candidates' resumes. Before the HR Select launch, HR managers had to screen or read those candidates' resumes by themselves. But the HR Select can automatically screen those resumes and turn the resume to a database, or an Excel table. So the HR manager can very easily compare or screen those candidates. And, also, after that, we provide a tool to help the HR manager to test these candidates, which he or she wants them to be tested.

The fourth portion of the service is totally free, free of charge, but when the HR manager wants to test the candidate, they have to take -- we have two models. The first one is an annual fee of RMB3,800 per year, and the second is that RMB10 per test. Am I right? Carl?

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

Yes, that's right. Thank you, Walter. Mark, is that clear?

**Mark Marostica** - Piper Jaffray - Analyst

Yes, it is clear, very clear. Thank you for that color. Should I assume, then, that I think you said in your prepared remarks 500 customers signed up for HR Select. Do those 500 represent -- go ahead.

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

There are actually more than 500 plus. We're actually in the thousands range already with the number of accounts that we have, but the 500 accounts that we are mentioning are basically the ones that are actively already using the free part of the service, resume screening, and we are going to hope they will move on quickly to using the test part. We already see one or two clients starting to do the testing and pay us already.

**Mark Marostica** - Piper Jaffray - Analyst

Okay, so it's early days for the testing portion, but you have a big backlog, is what you're saying, of potential revenue-producing customers for you. Okay.

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

Yes, and this product was basically launched just 30 days ago, so we're very encouraged by this.

**Mark Marostica** - Piper Jaffray - Analyst

Then last question and I'll turn it over, you talked about a negative impact on gross margins due to the increase in software amortization. Can you quantify for us what that exactly was in the quarter and as you look to fiscal 2010 how should we think about the impact of the incremental software amortization as it flows through the P&L For 2010 versus '09? Thanks.

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

Yes, Mark, the software was purchased in the previous quarter and we're amortizing just about one-point-something million of that in this quarter, because this quarter has a slightly -- it's a slower quarter, so the margin impact is bigger than normal, so we see our gross margin got reduced to 48%.

So, going forward, we're probably going to see about an approximately 1 million charge to the direct cost side every quarter. That will become less impactful, for example, for the December quarters.

**Mark Marostica** - Piper Jaffray - Analyst

And that -- we anniversary that then in the March quarter, again, of 2010?

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

Yes, we -- we have two parts of this software. One is a USB dongle. One is actually a security software product that we purchased. So on average this will be amortized over the next three to five years, so about a 1 million per quarter hit over the next three to five years.

**Mark Marostica** - Piper Jaffray - Analyst

And just to be clear, the incremental software amortization that's hitting the cost of sales, it began in the March quarter of '09, is that right? Or March quarter of --

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

Yes, at the end of the quarter.

**Mark Marostica** - Piper Jaffray - Analyst

Okay, that's great. Okay, thank you.

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

Sure.

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**Operator**

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

**Adele Mao - Susquehanna International - Analyst**

Hi. I would like to get back to HR Select product a little bit. Could you discuss the competitive landscape? Any other companies out there are providing similar services to compete with the same customer base and what makes your product unique to prevent any sort of copycats to come around down the road to the limit your potential in the area?

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

The first one is no, there are no competitors for this service, and we have established extremely high entry barriers, similar to what we have done in the commercial testing space for the government. Let me first just shed some quick light. This comes with a caveat when we say no competition, when you quickly realize they can't fight with ATA. You're aware of guys like 51jobs.com, Xiaoping, ChinaHR. They all provide resume service to companies, and to be frank they all have some sort of testing service as part of the resume screening part.

But the issue is that ATA is the only one in the market that has the test centers that can provide both secure testing and also online tests, on-site tests for less-secure testing. But that's only one part of the entry barrier. The most important part of the entry barrier, which we got extremely positive feedback from companies that we have been working with right now is that we are the only ones in market with the capability to offer so many different types of skills to be tested. No one has secured TOEIC. No one has secured SHL. We are exclusive in these areas and these are the premier standardized international assessment tools. We're the only ones that basically offer a supermarket of test tools for any company to come in and say, "I want this type of person to be tested." They can select from the 600-plus positions they want to work with.

The sort-of competitors like ChinaHR, 51jobs.com, they can only provide self-developed sort of very low-end, unscientific aptitude tests that leads to some sort of conclusion that may not be so standardized. So this is our niche and, again, the test center is absolutely a key, because when we work with guys like Bank of China, China Life Insurance, one of the key areas they wanted to work with ATA was ability to provide the space and the channel to test so many people at the same time in a secure situation.

**Adele Mao - Susquehanna International - Analyst**

I see. That's very helpful, Carl. Also, I would like to get a bit more color on (inaudible) English program. It looks like the trials have been successful in 10 provinces and you're targeting to book revenue in the September quarter. I was just wondering what your expectation is, and is that already baked into your guidance for fiscal year 2010?

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

Yes, this program does not require any specific government approval, so we have done a little bit of budgeting for this. Of course, it's real little. Right now, on a very conservative basis, we expect to generate maybe RMB1.5 million to RMB2 million out of this and we are much more optimistic than that.

**Adele Mao - Susquehanna International - Analyst**

And the RMB1.5 million to RMB2 million is based on how many kids signing up for your program?

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

Well, this is going to spread over three quarters starting in September, so basically we're talking about 400,000, 500,000 each quarter. For the year, we're looking at about maybe 50,000 kids signing up for the program. So it's a very small proportion of the already 2 million addressable market that is studying this program in the brick and mortar world.

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

I see. That's great. Thank you.

**Operator**

Our next question comes from the line of Jeff Lee of Signal Hill. Please proceed.

**Jeff Lee** - *Signal Hill - Analyst*

Hi, guys. Really solid quarter. The first thing I wanted to ask you about is what kind of effect, if any, are you seeing from a weakening economy on your business and maybe any sort of impact on HR Select from the initial discussions you've had with clients?

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

Sure. First of all, the biggest, hardest-hit part of the whole economy is the financial sector, and this is still true for China, as well. But look at what we've done. On the financial sector side, we've grown, as we mentioned earlier, 170% year-over-year, even for this current quarter. So we see no specific impact to our business from the worsened economy from the previous years.

We continue to be very optimistic, because the service we are offering on the financial sector for the government specifically tailors to qualifying and certifying the right talent to work in the right place, which is one of the key priorities of government. They want to make sure the people working in these industries are the right ones, to avoid the issues we are facing today.

So we are very sort of blessed with the overall situation of the government thinking and the way we have grown, delivered in this quarter. In terms of HR Select, we are also quite optimistic. Now, to be very honest, we are less optimistic than when we thought about this product a year and a half ago, because hiring has slowed down, definitely.

But what we have seen as we talked with more and more clients today, including the 500-plus we've signed up, is that these clients are very interested to use this in addition to the recruitment process as an internal assessment tool. So in terms of hiring or firing, this becomes a very useful tool in a good economy or a bad economy. So we -- I think this product, given the need to find the right person from a hiring process or a retention process continues to be very attractive across all the clients we talk to.

**Jeff Lee** - *Signal Hill - Analyst*

Okay, great. And then just to clarify the fees you mentioned for that, there was an annual fee and then a per-test fee. Does the company pay for both, or is that one or the other?

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

One or the other.

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**Jeff Lee** - Signal Hill - Analyst

Yeah, one or the other. And then on all the various relationships you mentioned, is it correct to assume that -- or various opportunities, that most of them are going to impact fiscal year 2011 more rather than fiscal year 2010?

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

We really, really hope that the Ministry of Culture relationship should hit for fiscal 2010 and hopefully shortly in the next few quarters. Insurance Association, similarly, and for Ministry of Justice, similarly. So any longer-term -- or Ministry of Finance, because child tests are still being discussed and we don't have a specific plan yet, so more likely 2011. Ministry of Health, also, but these are all tests, other opportunities that we have been working hard on for over the last two to three years. And more importantly, we don't see any competitors fighting for this, so we stand in a very good position, no matter what.

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**Jeff Lee** - Signal Hill - Analyst

Okay, great. And then maybe could you sort of rank revenue opportunities, which ones are the biggest ones, and then sort of going down the lines?

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

Obviously, Ministry of Finance, with over 10 million test takers, is the biggest testing opportunity in China, bar none. The second one would be the Ministry of Culture, given that it packages what we have already worked out, a test and a training program, together, that will bring very meaningful per-Internet cafe revenue, which is upwards of RMB2,000 -- sorry, RMB1,000 per Internet cafe and there are over 300,000 Internet cafes in China, so that's a very meaningful opportunity, too.

And then we're probably talking about Ministry of Justice and Ministry of Health on a fairly similar basis, because the volume there is slower. Number of doctors and number of lawyers are definitely less than the number of people certainly hoping to be accountants or work in the finance space. So that's the kind of sort of ranking.

And the Insurance Association is a very large opportunity, too, but that depends on if we can successfully launch a nationwide test. As of now, the regional test programs are probably just about the same size as Ministry of Justice or Health. But if a nationwide certification program is instituted, which they are planning this, then that can be like a Banking Association opportunity.

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**Jeff Lee** - Signal Hill - Analyst

Okay, great. And then what kind of visibility do you have on guidance? I guess what risks are there, and then what opportunities for upside are there? And then which new opportunities are baked into guidance, I guess?

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

Certainly any government decision making is not baked into the guidance, so even for China Banking Association, which is a standing client of ours for the last three years, which is the biggest additional client, for the four additional new titles, we haven't written in the guidance. So including any of the ministries we talked about, we haven't put it in the guidance.

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So what we're looking at is a fiscal 2010 guidance of basically organic growth. And if you look at what we have achieved in fiscal 2009, we've achieved basically 30% growth without any new things. That's organic, too, and our guidance is only 18%, 20% growth over next year, for next year, two, so we think that we can probably get there quite comfortably. So if we make an announcement that we're closing a new ministry client, then we will probably have to revise some of our guidance.

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**Jeff Lee** - *Signal Hill - Analyst*

Okay, so Ministry of Culture, Internet cafes, that's upside if you close that.

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

Yes, exactly.

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**Jeff Lee** - *Signal Hill - Analyst*

Okay, and then just the last question I want to ask is about the various expense lines that you can talk about.

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

There's actually not much seasonal pattern. It remains pretty stable from quarter to quarter. This is measured as more relevant from quarter-to-quarter versus a year-on-year. So the progression we see is that it's gotten a little bit bigger, but you have to admit that we basically did not perform as well as we hoped for 2009 when we established a budget for 2008, so we cut back on bonuses to make sure our earnings are good.

So we're going to expand this -- expand a little bit into 2010 as we do more sales and marketing for things like HR Select, TOEIC, but we are quite confident that operational leverage should come through quite nicely and maintain that expense budget, operating expense budget at about RMB100 to RMB110 million.

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**Jeff Lee** - *Signal Hill - Analyst*

Okay, great, and sales and marketing, is the level we saw in the March quarter sort of the new level, or are we going to see that bounce back up?

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

It's going to go up a bit.

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**Jeff Lee** - *Signal Hill - Analyst*

Okay, okay, great. Thank you very much, great quarter.

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

Thank you, Jeff.

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**Operator**

Our next question comes from the line of Echo He of Oppenheimer. Please proceed.

**Echo He - Oppenheimer - Analyst**

Hi, thank you for taking my question. The first one is, for those big revenue contributors, could you comment on the growth rate in the next two to three years?

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

Well, we've been overall sort of conservative on what we do for the big revenue contributors. For example, banking association, we are only expecting the growth of just about 20% into fiscal 2010. Securities Association, we expect it to be flat if not slightly lower, on a very conservative basis.

And then, Ministry of Labor, because of what's happening with the integration, we also expect that to be sort of flat, if not a little bit growth of 20% to 30%. That's why our overall guidance falls between 20% to 30%. And then what we are really excited about and hopeful for is the HR Select service, because this opens up an entire new opportunity on the private sector side that needs the service but nobody has addressed.

It's difficult to gauge how the growth rate trajectory will be yet. We have some internal models, but I'll update the community once we hit September, when we see more revenue -- more revenue clarity. Then I'll provide an update on that.

**Echo He - Oppenheimer - Analyst**

Okay.

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

TOEIC is something that we're also very excited about. 70,000 people last year, and we're modeling about 70,000 people this year. This is China. We're a market of over 160 million English learners, only 70,000 people are paying for TOEIC tests. Look at Japan and Korea. There are over 20 million people -- 2 million people paying for TOEIC tests every year. You can do the math and addressable market opportunity yourself. It's a highly, highly big potential product.

**Echo He - Oppenheimer - Analyst**

But you just said a guidance is 20% to 30% year-over-year growth, but if you add HR Select and TOEIC and maybe Cambridge Young Learner, that's probably going to exceed your guidance, right?

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

Well, no, like I mentioned before, we're modeling in a slight decline in Securities Association test given the very high growth rate we have been seeing, just on a conservative basis. So overall our budget sort of evens out that.

**Echo He - Oppenheimer - Analyst**

You mean that if the client were flat of Securities tests would be compensated by TOEIC and HR Select?

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

Yes, exactly.

**Echo He** - Oppenheimer - Analyst

Yes, now, also going forward, could you give a full-year fiscal '10 approximate estimate on your margin trend, both gross margin and operating margin?

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

Yes, unfortunately, we don't provide that guidance, but from a few perspectives, we expect to maintain gross margin pretty stably and, given that we expect to cap our operating expenses at 100 million to 110 million, as I mentioned before, we expect operating margins to improve, but I did not give a specific number.

**Echo He** - Oppenheimer - Analyst

Okay, but what about research development and general and administrative? Are they going to trend up during the next year?

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

Sure. They will all trend up a little bit to get us to 100 to 110, because we only did 92 million for the full fiscal 2009, so everything will trend up a little bit right now as we look at it at this time of the year.

**Echo He** - Oppenheimer - Analyst

Okay. And then next question I think is your HR Select, that you mentioned that you can provide many tests for many skills. Is that integrating the content of your other tests?

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

Absolutely. It packages our commercial tests, like TOEIC. We have obtained exclusive distributorship for SHL aptitude tests. We also offer, from the IT side, Microsoft certification programs, similar tests to that, other language tests and anything else, Walter?

Yes, so this is all a lot of the things that we carry over from the commercial testing side into the private sector.

**Echo He** - Oppenheimer - Analyst

Okay, so those tests' content, all of them are self-developed. Do they need any license fee or anything?

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

No, they do need license fee. For TOEIC, SHL, we have to pay the title owner, which is ETS and SHL.

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**Echo He** - *Oppenheimer - Analyst*

Okay, but overall they still are at gross margins would still --

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

Improved. It would improve, actually.

**Echo He** - *Oppenheimer - Analyst*

Better than existing test service.

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

Sure, because we signed very good terms for these companies. What happens is guys like ETS and SHL, they can't access this Chinese market alone and grow the product the way that ATA can, so they hope to use and leverage ATA's platform, and they've seen the demonstration of HR Select product and are willing to offer us really attractive rates to really make a name for their product in China.

**Echo He** - *Oppenheimer - Analyst*

Okay, that's helpful. And also, at the Cambridge Young Learners program, that content is your self-developed, too?

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

Yes, we developed that ourselves.

**Echo He** - *Oppenheimer - Analyst*

So you don't have any content overlapping with any of your competitors?

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

No, don't have a licensing from Cambridge, and we don't need it.

**Echo He** - *Oppenheimer - Analyst*

Okay, I understand. Thank you so much. That's all of my questions.

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

Thank you, Echo.

**Operator**

(Operator Instructions). Our next question comes from the line of [David Li] of Ajira Partners. Please proceed.

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**David Li** - Ajira Partners - Analyst

Hi, Carl. Most of the stuff has been covered. I just want to clarify, on the cash side, what are you currently doing with the cash? Is it sitting in foreign currency or anything in China and what are your plans in utilizing that cash?

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

Sure, we have a \$45 million cash balance, and I know before we get there, a lot of people actually ask me this question, so I offer this data as well. We've generated net income of RMB31 million this quarter -- this year, fiscal year. Well, we actually also generated 30 million in operating cash flow this year, too, so this Company is actually generating cash flow quite nicely.

Now, what we do with this cash balance, it's all -- the majority is sitting in US dollar accounts offshore in Hong Kong. We are in the process of bringing this in. The process has been longer than expected, but it looks like we've gotten approval for that and we should come in and take our Chinese accounts and convert it to renminbi over the course of the next two to three weeks. So they will be mostly converted to renminbi, and the cash will be used to potentially license more content, for example to fill our HRS line of the arsenal of test questions that we can offer to the enterprises, license more international exams into China and so forth.

**David Li** - Ajira Partners - Analyst

Right, do you have any particular budget kind of range for that?

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

Right now, it's difficult to say, because each licensed program is a negotiated process and it varies from one to another.

**David Li** - Ajira Partners - Analyst

Right, but definitely there's no M&A or dividend planned n there?

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

The issue of M&A is we are more like a natural monopoly in what we do in China, so it's difficult to find a company to buy unless we want to venture into other things, like test prep. But right now we want to remain a focused testing service company because the market is so large. And then in terms of dividend plan, at the moment, not yet. For a public company, we want to maintain some cash balance. 40 million is not a lot if you look at the periods that are listed.

But if we generate even more cash flow and stronger cash flow, which we expect to, anything is a possibility. We want to make sure -- that's my job as the CFO. I want to make sure our shareholder value is maximized, and we'll continue to make that commitment.

**David Li** - Ajira Partners - Analyst

Okay, that's all I have. Thanks.

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

Thank you, David.

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**Operator**

Our next question comes from the line of Glen Gordon of York Capital. Please proceed.

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**Glen Gordon** - *York Capital - Analyst*

Hi, just to follow-up on that point. I believe there was a \$5 million share buyback authorized a couple of quarters ago. I just wanted to know if there was any movement on that, or if that was something you intended to do?

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

Yes, we would continue to commit to the share buyback program, because we believe the Company is undervalued -- sorry, undervalued. And it's also a form of returning some value to our shareholders, doing a share buyback program. A portion of it has been utilized already, but there's still about 3.5 million outstanding capital that we are continuing to commit to purchase shares. And that program is good until the end of calendar year 2009, so we'll continue to buy in the market at every possible opportunity.

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**Glen Gordon** - *York Capital - Analyst*

Thanks.

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**Operator**

And we have no further questions. I'd like to turn the call over to management.

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

Okay, well, on behalf of the whole ATA management team, we really thank you for your interest and participation on this call. If you have any interest in visiting AT. From time to time, we host open days, investor days. Please do get in touch with us or our IR firm, CCG IR, and we'll be happy to host you in Beijing. Thank you very much. Have a good day.

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**Operator**

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

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