

FINAL TRANSCRIPT

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ATAI - Q1 2011 ATA Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

Thomas Myers

Christensen Investor Relations - IR

Walter Wang

ATA Inc. - President

Benson Tsang

ATA Inc. - CFO

CONFERENCE CALL PARTICIPANTS

Mark Marostica

Piper Jaffray - Analyst

Ella Ji

Oppenheimer & Co. - Analyst

PRESENTATION

Operator

Welcome to ATA's conference call covering its first quarter of fiscal year of 2011. For the first part of this call all participants are in a listen-only mode. A question-and-answer will follow the Company's prepared remarks. I am pleased to present Mr. Tom Myers of Christensen. Please begin.

Thomas Myers - *Christensen Investor Relations - IR*

Thank you, Katrina. Today includes Walter Wang, President and Director and Benson Tsang, Chief Financial Officer and Chief Accounting Officer. I should mention that Kevin Ma, Chairman and CEO, who is normally on the calls, is away due to the illness of a family member and he is looking forward to talking with you next quarter.

One of my duties today is to remind you about forward-looking information. Our conference call may include forward-looking statements made under the Safe Harbor provisions of the Private Securities Litigation Reform Act. Although we believe that the expectations reflected in our forward-looking statements are reasonable as of today, those statements are subject to risks and uncertainties that could cause the actual results to differ dramatically from those projected.

There can be no assurance that those expectations will prove to be correct. Information about the risk associated with investing in ATA is included in our filings with the Securities and Exchange Commission which we encourage you to review before making an investment decision. The Company does not assume any obligation to update any forward-looking statements as a result of new information, future events, changes in market conditions or otherwise, except as required by law. ATA issued its earnings release for its fiscal first quarter yesterday on August 9. The Company will cover the main points of the release and then go to your questions, first, Mr. Wang, President and Director. Walter?

Walter Wang - *ATA Inc. - President*

Thank you, Tom. Hello from ATA in Beijing. I am very happy to be with you today. Our good performance in the fourth quarter shows that our main business of testing services continues to be strong and our emerging businesses are starting to capture attention and keep customers.

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Revenues from testing services were up 15% from first quarter last year with total tests taken down about 17% to 1.8 million tests. Even with the lower number of tests taken, testing service revenue were up 15% to RMB85 million. Our traditional testing revenues were up 12% due to the increase in our average selling price.

Revenues from our two emerging test products, the test of English for International Communications, or TOEIC, and HR Select are progressing. TOEIC revenues were even between third quarter's, and revenue from HR Select were up almost 900% to about RMB3.1 million for the first quarter. The increase was due mostly to more tests taken. So far we have registered 66,000 companies in our HR Select who are the potential customers for this human resource testing service and have converted today about 75 companies into paying customers.

Our strategy and actions remain on track. First, we are growing our traditional high margin businesses, testing services and our test prep and training solutions by adding more tests and more training offers, by adding more customers, the test sponsors, and by gradually adding more subjects and more professional disciplines for the test and training.

Second, we are continuing to invest in our two emerging businesses, TOEIC and HR Select by marketing and by training potential customers in the use of these two products, and of course by getting more contracts signed. As we look forward in this year of transition, there are two new potential opportunities that are especially encouraging. The first is testing of security guards in China. The testing is required by a new law and is sponsored by the Ministry of Public Security.

We do not yet have the contract for this program, but we have completed the trial run of the testing by giving the exam to about 3,000 participants in ten cities in China on June 12th. The feedback on the tests was positive. The Ministry is currently carrying out internal procedures for approval of the testing program.

The Ministry has also updated its estimate of number of security guards. They now believe there are about 8 million security guards instead of the 5 million we said in our prior earning call. Annual turnover of security guards is estimated at 30% each year, so this testing program should have a good term over the years.

(technical difficulty)

Operator

Ladies and gentlemen, thank you for your patience. Please stand by. Please proceed.

Thomas Myers - *Christensen Investor Relations - IR*

Hello. This is Tom Myers at Christensen. Sorry for the technical problem of being cut off. We will continue with the conference call on ATA's fiscal first quarter results. Walter, please continue.

Walter Wang - *ATA Inc. - President*

Thank you. The second new business opportunity is testing to license Internet cafes. Our discussions with the test sponsor, the Ministry of Culture, are continuing. The sponsor wants to begin the testing as soon as possible, focusing first on the owners of the Internet cafes. The purpose of the testing is to assure the high quality service and security of the Internet cafe for customers, so both of those potential new programs are starting to look encouraging.

We are maintaining our previous guidance, mainly due to testing services continuing to look strong for the year, but we do see a shift of some testing revenues from the second quarter to the third quarter, primarily for testing in the securities industry. We remain confident that our strategy is sound, our actions effective and our progress aligned for good long-term growth trend



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for our business. We believe our attractive results in the years ahead should create substantial value for our shareholders. Now, Benson will cover the financials. Benson?

Benson Tsang - ATA Inc. - CFO

Thank you, Walter. We announced our results yesterday. I hope you have taken a few minutes to review our results, so I will just cover the key points here. Our net revenue's guidance for the first quarter of fiscal year 2011 was RMB78 million to RMB82 million. We reported RMB85 million RMB, so we were about 3.7% above the upper end of the guidance, mainly on the strength of our testing services.

Our net revenues increased by almost 7% year-over-year to RMB85 million. The increase is mainly attributed to the growth in our traditional testing services, a 15% increase year-over-year to RMB73 million. A couple of noteworthy points in our traditional testing services. First, the Securities Association test. We had a record number of test takers for the exam, about 639,000 during the first quarter versus 300,000 in the same quarter last year.

Second point to note is that our current quarter net revenues were affected by the price adjustment of Banking Association Exam, which we described in a prior earnings call. The adjustments were from RMB60.8 to RMB47 per test after tax, which is effective from Q2 last year. As you remember, the price is lower because we now provide electronic certificates instead of the paper versions.

Overall, we delivered approximately 1.8 million tests during this first quarter, a decrease of 17% from the same period last fiscal year. The decrease is due to the shift of two High School exams from our first quarter to the second quarter this year.

For TOEIC, our revenues were even between the quarters, and revenues from HR Select were up significantly to about RMB3.1 million for this quarter from RMB300,000 in the same quarter last year. The increase was due to more tests taken.

Gross profit decreased 1.7% year-over-year to about RMB44 million, mainly due to the price adjustment for the China Banking Association exam I mentioned earlier. Net income decreased by 29.5% year-over-year to RMB9 million. The decrease was primarily due to the price adjustments in the China Banking Association exam plus our investments in our new businesses, TOEIC and HR Select.

Moving to our cash, during the first quarter FY 2011, our operations generated cash of about RMB7.6 million. We had small changes in fixed assets and we had no debt. As of June 30, 2010 we had cash of about RMB219 million, equivalent to about \$32 million.

Now our guidance for the second quarter. We expect net revenues to be in the range of RMB24 million to RMB28 million, compared with our revenues of RMB41.6 million in the same quarter last year. The forecast net revenues will be down in the range of 33% to 42% approximately.

The second quarter 2011 guidance reflects delayed starts and periodic testing choices by test sponsors. The main effect is from the Securities exam. The originally planned Q2 test has been moved to Q3 and we now expect to have two exam seatings in Q3 for the Securities Association.

The estimated net revenues from each exam seating is in the range of RMB20 million to RMB25 million. As a result of the test scheduling changes, we expect a lower net revenue for our second quarter and a higher net revenue for our third quarter than were previously expected. For our full year guidance, we are maintaining our guidance for our net revenues in the range of RMB280 million to RMB300 million. Now it is your turn. We are happy to take your questions.

Operator, please prompt for questions.

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QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Your first question comes from the line of Mark Marostica representing Piper Jaffray. Please proceed.

Mark Marostica - Piper Jaffray - Analyst

Yes, thank you. My first question is whether or not your annual guidance includes any potential revenue from the Security, excuse me, the Security Guard exam or the Internet Cafe exam.

Benson Tsang - ATA Inc. - CFO

No. We do not include any revenue from those two potential projects.

Mark Marostica - Piper Jaffray - Analyst

Okay. On the Security Guard exam, I noticed that at this point you are still without a formal contract, yet you are moving forward with the relationship and the trials which seems to be going well. I am curious, what is it going to take to get the formal contract in your hands and when do you expect to have it?

Benson Tsang - ATA Inc. - CFO

Currently we understand the Ministry of Public Security is going through internal procedures to get the final approval. Once we got the approval, as we understand now we need to go through each province to get the commercial contract. Based on our best estimate we fully intend to start the exam before the end of this calendar year, but the final decision will be depending on the result from the approval process of the Ministry.

Mark Marostica - Piper Jaffray - Analyst

And then on the other hand with the Ministry of Culture, correct me if I am wrong, but I believe you already have the contract. How do you think that will roll out through the balance of this fiscal year, or should we not expect any revenue as your guidance [provides] from that particular exam?

Benson Tsang - ATA Inc. - CFO

For the Ministry of Culture contract, due to the changes in prior years, many in the official change, we are pending for the Ministry to get back to us with a confirmation to go, a go signal and then we will proceed. And based on the latest discussion we had with the Ministry, we are planning to start the testing probably in Q4 of this calendar year.

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Mark Marostica - Piper Jaffray - Analyst

Fair enough, thanks. I will turn it over.

Benson Tsang - ATA Inc. - CFO

Thank you.

Operator

(Operator Instructions)

Your next question comes from the line of Ella Ji representing Oppenheimer. Please proceed.

Ella Ji - Oppenheimer & Co. - Analyst

Hi. Thanks for taking my questions. What was the revenue for TOEIC and Cambridge Young English program for this quarter?

Benson Tsang - ATA Inc. - CFO

The revenue for TOEIC is basically similar to the same quarter last year, about RMB6.4 million. And the revenue from our Cambridge 365 program, the revenue we recognized is basically just one month amortization of what we sold. The revenue is about RMB70,000.

Ella Ji - Oppenheimer & Co. - Analyst

Thanks. And how many paying customers for HR Select do you have as of this quarter?

Benson Tsang - ATA Inc. - CFO

We have approximately 75 customers.

Ella Ji - Oppenheimer & Co. - Analyst

Okay. So for your, for the big revenue increase in HR Select, do you think it is more coming from you now you have more paying customers? Or is it more coming from you are generating more revenues per each existing customer?

Benson Tsang. In first quarter, we had two main customers. One is Bank of China, we consider as a recurring customer. And the other customer is China Southern Airlines. And the rest of the revenues actually come from a mix of using our HR Select platform and other corporate accounts.

Ella Ji - Oppenheimer & Co. - Analyst

Okay, thanks. In terms of your operating expenditure, going forward do you think the current level, the absolute dollar level, do you think you will maintain at this level or do you think you will occur even higher or maybe lower operating expenses in the next few quarters?

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Benson Tsang - ATA Inc. - CFO

For our operating expenses we need to look into three categories. For the general and administrative expenses, as you can see in Q1, we managed to control the level similar to prior year. In fact, we managed to achieve a small cost saving.

For the R&D expenses, we will be spending responsibly only to areas we consider there are business opportunities. And for the sales and marketing, that will be an area we will continue to invest in order to promote the two new businesses, TOEIC and HR Select.

As I shared in a prior earning call, this year we plan to spend up to RMB40 million for the sales and marketing and R&D expenses, but the actual spending will be depending on the progress of the business units. And based on the first quarter results we see the business units are on track and in the next earnings call we will share more about the progresses of the businesses.

Ella Ji - Oppenheimer & Co. - Analyst

Okay. Thanks for the color, very helpful. Well, for this quarter your sales and marketing you already spent about RMB12.5 million. If you are going in this pace, I think your full year will be over the RMB40 million budget. So do you think you will try to control going forward, or will it be maintained at this level?

Benson Tsang - ATA Inc. - CFO

In fact the RMB12.5 million essentially includes the spending for all business units, including the traditional testing services. When I mentioned the RMB40 million, it is actually for the new businesses, TOEIC and HR Select and a small portion to go to Cambridge 365. In Q1 we only spent about RMB8 million in those three new businesses.

Ella Ji - Oppenheimer & Co. - Analyst

Okay, thank you. And can I ask a question? Your total test takers for the quarter is 8 point, well, 1.8 million and you mentioned it is negatively impacted by two High School tests. Could you -- have you -- if you exclude that impact, how -- what was the test taker year-over-year growth in the quarter?

Benson Tsang - ATA Inc. - CFO

Okay. Maybe I will answer your question this way. The number of test takers for those two High School exams last year was about 700,000 students. And about the same number of students we already provided the exams in Q2.

Ella Ji - Oppenheimer & Co. - Analyst

Okay, thank you.

Benson Tsang - ATA Inc. - CFO

Thank you.

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Operator

(Operator Instructions)

With no further questions I would now like to turn the call back to Mr. Benson Tsang for closing remarks.

Benson Tsang - ATA Inc. - CFO

Thank you, Operator. You still have time for a short summer vacation, so we hope you can find a few moments of relaxation before the traditional investment season which we believe begins in September. While you are taking a well deserved break, ATA will be continuing to be vigilant every day in every possible way to achieve additional success for you by continuing to work to grow our revenues, net income and cash flow in the years ahead.

We thank you for your interest and your investment in our company. Both continue to be vital to our success. Like a bond between good friends, we expect to deliver the attractive returns that you expect from us. Until we meet again we wish you good health, safety and happiness. From ATA in Beijing, goodbye for now. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day.

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