

FINAL TRANSCRIPT

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ATAI - Q2 2011 ATA Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

Thomas Myers

Christensen - IR

Kevin Ma

ATA Inc. - Chairman, CEO

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

Good day, ladies and gentlemen, and welcome to the Second Quarter 2011 ATA Inc. Earnings Conference Call. My name is Chris and I will be your operator for today. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session.

(Operator Instructions)

As a reminder this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Mr. Tom Myers of Christensen. Please proceed..

Thomas Myers - Christensen - IR

Thank you, Chris. Our team today includes Kevin Ma, Chairman and CEO, Walter Wang, Director and President, and Benson Tsang, Chief Financial Officer and Chief Accounting Officer.

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 of 1995. 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 risks 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 of course as required by law.

ATA issued its earnings news release for its fiscal second quarter yesterday on November 8. The Company will cover the main points of the release, then go to your questions. First, Mr. Ma, Chairman and CEO. Kevin?



Nov. 09. 2010 / 1:00PM, ATAI - Q2 2011 ATA Inc. Earnings Conference Call

Kevin Ma - ATA Inc. - Chairman, CEO

Thank you, Tom. Hello from ATA in Beijing. I am very happy to be with you today. As you remember, in August we said that our second quarter would likely be down from the second quarter last year due to mainly the shift of tests for the Securities Association of China from our fiscal second quarter to our third quarter this year. That of course, turned out to be true.

We also did better than we expected in some of our businesses and we reduced expenses while maintaining our momentum in product promotion for long-term growth.

Because of the revenue shift, we expect that our fiscal third quarter 2011, ending December 31, 2010 should be quite strong compared with last year's fiscal third quarter.

We are continuing our expense investments to expand our two emerging businesses, TOEIC and HR Select. We believe those two businesses have good long-term growth potential.

We have delivered about 18% more tests for TOEIC in the second quarter as compared to the same period last year. Revenues from testing using HR Select were down from last year's second quarter, mainly due to the shift in the timing of tests from our fiscal second quarter to our third quarter for the Agricultural Bank of China. The amount was about RMB3.2 million last year. We have scheduled to provide the testing services to this customer in our fiscal third quarter and the contract amount is larger.

Our new business prospects in both our traditional testing services and in new business lines continued to advance in the second quarter. For the security guards testing program, the government has approved this fee-collecting program. We just held a seminar last week to train the representatives of Police Departments from different cities about the exam. We are encouraged by the feedbacks from the participants.

The second new business opportunity is testing to license internet cafes for the Ministry of Culture. The Ministry has released in August the requirement for Internet Cafe owners and managers as the first batch of people to take the test. In addition, the announcement also indicated that the test takers shall first attend a test preparation. We have also been appointed as the test preparation provider. We have completed the materials and submitted to the Ministry to review and for approval. Once we hear confirmation on the materials from the Ministry, we shall start the program.

We are maintaining our previous revenue guidance range for the full fiscal year 2011, so the comparison for our coming fiscal third quarter with our prior third quarter is expected to be strong. We continue to believe that our strategy is sound, our actions effective and our progress aligned for a good long-term growth trend for our business.

We are looking forward to delivering attractive results in the years ahead that we expect will create substantial value for our shareholders.

Next, Walter will update our operations for you. Walter?

Walter Wang - ATA Inc. - President

Thank you, Kevin. Our net revenues were down 20% from the prior fiscal second quarter. Net revenues from testing services were off 37.3% from the prior second quarter mainly due to the shift in the timing of tests delivered for the Security Association of China and Agricultural Bank of China from our fiscal second quarter to the third quarter.

The effect of the shift was partly offset by higher revenues from testing for Associate Financial Planner, China Futures Association and the Ministry of Labor. We expanded our testing network just slightly in the second quarter, adding four authorized test centers to bring our total to 2,006 centers at September 30 from 2,002 centers as of June 30.



Nov. 09. 2010 / 1:00PM, ATAI - Q2 2011 ATA Inc. Earnings Conference Call

Net revenues from test-based educational programs were down 20.8% from the prior second quarter due to fewer students were enrolled in the major degree program for information technology. That was expected, since we are not investing more in this business.

Net revenues from test preparation and training solutions were up 15.7% from the prior second quarter due to mainly more online training credits taken in the China Securities Association continuing education program.

Other net revenues were up 53.5% from the prior second quarter due to mainly the test-related services provided to the China Banking Association.

The total number of tests we delivered in the second quarter were up 46% from the prior second quarter to about 1.1 million tests.

We continued our marketing and sales efforts, especially in our emerging businesses. We believe both HR Select and TOEIC will provide attractive future growth and high returns for ATA.

In HR Select, so far, we have registered about 70,200 companies who are the potential customers for this human resources testing service and have converted to date about 124 companies into paying customers for HR Select. Overall, we are happy with our testing services business.

The outlook for growth and returns from our test preparation and training solutions also is attractive. Here we focus mostly on professional training for the initial training and for continuing education for professionals in the financial securities industry. This attractive business is expected to be very good in both financial performance and long life.

In summary for the second quarter, the shift in timing of tests obviously lowered our revenues in the second quarter. Our gross profit is 3.2% lower year-over-year, but our gross margin increased to 45.7% from 37.8% last year same quarter.

Operating expenses were down 2.5%. As a result our net loss reduced by 9.6% from the prior second quarter.

The trend of our strategy and actions remains on track with a good outlook for our traditional high margin businesses, those are testing services and our test preparation and training solutions. Future growth is expected to come from adding more tests, adding more training offered, adding more customers - the test sponsors - and by gradually adding more subjects and more professional disciplines for tests and training.

We are also continuing to invest in our two emerging businesses, TOEIC and HR Select. So, all in all, we believe the future for ATA remains attractive.

Now Benson will cover our financials. Benson?

Benson Tsang - ATA Inc. - CFO

Thank you, Walter. We announced our results yesterday. I hope you have had a chance to read the results. I will just cover the key points here.

Our net revenues guidance for this second quarter of fiscal year 2011 was RMB24 million to RMB28 million. We reported RMB33.3 million. We were about 19% above the upper end of the guidance, mainly on the momentum of our traditional testing services and the quarter's strength in our test preparation and training solutions businesses.



Nov. 09. 2010 / 1:00PM, ATAI - Q2 2011 ATA Inc. Earnings Conference Call

Our gross margin has increased from about 38% last year to 46% this year. The increase is due to mainly the conclusion of two contracts in the quarter.

First is the price increase for the China Securities Association tests from RMB39 to RMB40, effective retroactively on January 1, 2010. We received RMB1.1 million during the quarter.

And the second one is the test related services we provided to the China Banking Association which we classified in other revenue, amounting to about RMB2.8 million. These two contracts improved our gross margin by about 6% to 7%.

As a result of better gross profit and margin, and cautious spending in our fiscal second quarter, we reduced our net loss by about 10% as compared to the same quarter last year.

Moving to our cash, during our fiscal second quarter 2011 our operations generated cash of about RMB22 million. Net cash invested was RMB1.1 million during the quarter, primarily for office renovation and equipment.

As of September 30, 2010 we had cash of about RMB238 million, equivalent to about \$36 million. We had no debt as of September 30.

Now for our guidance for the third quarter of fiscal year 2011, we expect net revenues to be in the range of RMB111 million to RMB115 million for our third quarter ending December 31, 2010. Compared with our net revenues of RMB76.4 million in the fiscal third quarter of 2010, the forecast net revenues will be up in the range of 45% to 51% between the third quarters of FY2011 and 2010. The third quarter 2011 guidance reflects shifts of testing by test sponsors from our second quarter into our third quarter, which previously discussed today.

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 will be happy to take your questions. Operator, please prompt for questions.

QUESTIONS AND ANSWERS

Operator

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

Mark Marostica - Piper Jaffray - Analyst

Thank you and nice job on the quarter. My first question relates to the security guard test and the Ministry of Culture Internet cafe test. I am curious what you are expecting as implied in your guidance for fiscal '11 revenue from those two tests.

Benson Tsang - ATA Inc. - CFO

Mark, this is Benson. I will take the question. From the Company perspective, we are very happy to the progress of those two projects at the moment. We have not included any financial contributions from those two projects in our fiscal year 2011 and but we do hope, based on the current progress we can start the testing or the services to be provided to the Ministries of Public Security and also the Ministry of Culture.

Nov. 09. 2010 / 1:00PM, ATAI - Q2 2011 ATA Inc. Earnings Conference Call

Mark Marostica - Piper Jaffray - Analyst

Do you think that is a Q3 event, December or more likely a March quarter event?

Benson Tsang - ATA Inc. - CFO

Probably will be our fourth quarter, March event.

Mark Marostica - Piper Jaffray - Analyst

Okay. And do you have any sense for -- let's take the security guard test, any sense for the number of test takers that you might see take the test in the March quarter for the security guard test? Or is it just too early to know?

Benson Tsang - ATA Inc. - CFO

It is too early to know. We just finished the seminar for the Ministry last week. The feedback is positive and we will start the communication with different cities' officials. And hopefully we will have good news to share with the markets in our next quarter.

Mark Marostica - Piper Jaffray - Analyst

Okay, fair enough, just jumping to another topic that is similar to the fiscal '11 guidance and that is fiscal '12. I know that is a way away and you are not giving guidance today on fiscal '12, but I am curious to understand that if we look at the current book of business, exclude the security guard test, the Ministry of Culture Internet cafe test, how should we think about organic top-line growth for the Company from your core business, Securities Association, Banking Association, Ministry of Labor, Futures Association? I am just trying to get a sense of your current run rate as we look at fiscal '12.

Benson Tsang - ATA Inc. - CFO

Yes. Based on our own forecast, our traditional testing business, we have been comfortable to a 12% to 15% growth from our historical experience. And going forward we do see the 12% to 15% is the achievable growth rate. And for our new emerging businesses, meaning HR Select and TOEIC, in the past we share with the market, we anticipate almost like close to 50% growth in the next two years, meaning fiscal year 2010 -- 2011 and 2012.

And I remind you, we also share with you guys in the previous quarter our current Q3 will be a critical quarter for us to make an evaluation on the progress of the two projects, so I will say in our next quarter call, we will have a much better view and visibility of the potential growth rate in the years to come.

Mark Marostica - Piper Jaffray - Analyst

Okay. Thank you. I will turn it over to the next caller and jump back in the queue. Thanks.

Benson Tsang - ATA Inc. - CFO

Thank you.

Nov. 09. 2010 / 1:00PM, ATAI - Q2 2011 ATA Inc. Earnings Conference Call

Operator

(Operator Instructions). Our next question comes from the line of Ella Ji of Oppenheimer. Please proceed.

Ella Ji - Oppenheimer & Co. - Analyst

Thank you for taking my questions, just a quick follow-up on the prior question regarding the security guard and Internet cafe. A prior discussion with the authorities, do you think there will be a nationwide rollout in one time, or does it sound more likely a gradual rollout of maybe a few provinces at worked, then nationwide afterwards?

Benson Tsang - ATA Inc. - CFO

This is Benson. I will take the question as well. From the central government, the law already passed back in January 1, 2010, they will definitely want to roll out as soon as possible. From the actual execution, we believe it will be done on a phase by phase basis. For phase by phase I -- what I mean by that is, the actual execution will be depending on the respective cities, how they want to roll it out. So we believe it will be on a phase by phase basis.

Ella Ji - Oppenheimer & Co. - Analyst

Does it need a local authority's approval by each city, or is that necessary or not?

Benson Tsang - ATA Inc. - CFO

We don't need further approval from the local government, the approval already made at -- in the central government level. It is just a matter of complete the commercial contract negotiation and then to figure out the timetable of when to start and how soon they want to finish all the certification for all security guards within that city.

Ella Ji - Oppenheimer & Co. - Analyst

Okay. Thank you. And then switch gears a bit, about your gross margin. Even we exclude the two events you mentioned, the gross margin on a year-over-year basis still had a nice expansion. Could you talk about what is driving the margin expansion and do you think it will be sustainable going forward? Thank you.

Benson Tsang - ATA Inc. - CFO

Yes. For the gross margin it has been the continued effort the Company is putting in to improve our COS. And we believe it is an achievable goal for the Company to maintain the improvement trend of the gross margin, but the improvement will be achieved on a gradual basis.

Ella Ji - Oppenheimer & Co. - Analyst

Thank you. I will get back into the queue.

Benson Tsang - ATA Inc. - CFO

Thank you.



Nov. 09. 2010 / 1:00PM, ATAI - Q2 2011 ATA Inc. Earnings Conference Call

Operator

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

Mark Marostica - Piper Jaffray - Analyst

Yes. Thank you. I just wanted to review a comment you made, Benson, concerning HR Select and TOEIC, citing that Q3 will be a critical quarter, regarding the evaluation of the two projects. Can you give us a little more detail around what decision point you are at with the two efforts? Is this a go or no go decision going forward, or are you talking about tweaking the strategy of each?

Benson Tsang - ATA Inc. - CFO

Thank you, Mark, for the question. I will clarify what I mean by the previous comment. Both HR Select and TOEIC on the overall basis we achieved a pretty exciting growth. We are happy with the progress. We have been putting a lot of effort in promoting TOEIC, for example, and we have been very successful in getting 20 plus companies to determine to use TOEIC as a preferred criteria to do the employment.

And we believe Q3 will be the time we try to harvest the result of the hard work put in, in the previous quarters. And at the end of the Q3 quarter, what we intend to do is to assess whether the 50% growth rate I previously communicated can be maintained or can I actually make that 50% to even higher.

Mark Marostica - Piper Jaffray - Analyst

Okay. I understand, understand. And will that be driven, again, by your traction in the third quarter around additional company ads?

Benson Tsang - ATA Inc. - CFO

I think it will be both, depending on how many new companies we can achieve to become what we call the core customers. They will determine to adopt TOEIC as a preferred measure for evaluating the candidate as far as English is concerned. We will also try to see the effect of this preferred item, well, using this as a criteria in the employment market. And we expect with this preferred requirement we expect the university students and the general public who are looking for jobs, they will start taking TOEIC or prepare themselves for this TOEIC exam.

Mark Marostica - Piper Jaffray - Analyst

Got it. One last question -- I want to go back to the concept of the gross margin, understand of course you have got some nice uplift in the margin, even excluding the two one time-ish items. If we look at revenue mix in the quarter, would that have contributed any uplift to the gross margin in the quarter, or was it more along the lines, as you said, tied to efficiencies? Would love to understand if there is any mixed change going on here this, has an ongoing effect on gross margins.

Benson Tsang - ATA Inc. - CFO

I think it will be a mix and as you know the emerging businesses, we are growing the business at the moment. And we are yet to obtain a very attractive gross profit or gross margin at the moment, so the most of the contribution from now, for now is really from the traditional testing business.



Nov. 09. 2010 / 1:00PM, ATAI - Q2 2011 ATA Inc. Earnings Conference Call

Mark Marostica - Piper Jaffray - Analyst

Got it. How about within the testing business, the traditional testing business? Do we have a mix change there that is accounting for the gross margin uplift?

Benson Tsang - ATA Inc. - CFO

Yes. For the traditional testing business, depending on each quarter, the mix of the projects we are getting some small, especially smaller type projects we may be able to get better margins, but the most important is still the top four, top five key examinations.

Mark Marostica - Piper Jaffray - Analyst

Okay, fair enough. Thanks. I will turn it over.

Benson Tsang - ATA Inc. - CFO

Thank you.

Operator

(Operator Instructions). There are no questions at this time.

Benson Tsang - ATA Inc. - CFO

Thank you, operator. We have come to the end of the question-and-answer period. Now I will pass the call to Kevin to give our closing remarks. Kevin?

Kevin Ma - ATA Inc. - Chairman, CEO

As we begin to approach the holiday season in North America and Europe, we give you warm greetings for great happiness for you and for your family. We will continue on our quest everyday, in every possible way to achieve additional success for you, 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

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

Nov. 09. 2010 / 1:00PM, ATAI - Q2 2011 ATA Inc. Earnings Conference Call

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