

ATA Inc.  
Form 20-F  
June 15, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended March 31, 2011**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 001-33910**

**ATA Inc.**

(Exact name of Registrant as specified in its charter)

**Not applicable**

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**8th Floor, Tower E**

**6 Gongyuan West Street**

**Jian Guo Men Nei**

**Beijing 100005, China**

(Address of principal executive offices)

**Benson Tsang**

**Chief Financial Officer**

**ATA Inc.**

**8th Floor, Tower E**

**6 Gongyuan West Street**

**Jian Guo Men Nei**

**Beijing 100005, China**

**Telephone: 8610-6518-1122**

**Facsimile: 8610-6517-9517**

(Name, Telephone E-mail and/or Facsimile Number and Address of Company Contact Person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

|  |  |
|--|--|
| <b>Title of each class</b>   | <b>Name of each exchange on which registered</b> |
| <b>American Depositary Shares, each representing two common shares, par value \$0.01 per share</b> | <b>NASDAQ Global Market</b>                      |

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 45,730,517 common shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

If this report is an annual or transaction report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer. See the definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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**INTRODUCTION**

Except where the context otherwise requires and for purposes of this annual report only:

all references to years are to the calendar year from January 1 to December 31 and references to our fiscal year or years are to the fiscal year or years ended March 31;

we, us, our company, our, and ATA refer to ATA Inc. and its subsidiaries and affiliated PRC entity as the context requires;

China, Chinese and PRC refers to the People's Republic of China, excluding, for purposes of this annual report only, Taiwan and the Special Administrative Regions of Hong Kong and Macau;

all references to Renminbi or RMB are to the legal currency of China, and all references to U.S. dollars, dollars, \$ or US\$ are to the legal currency of the United States;

U.S. GAAP refers to generally accepted accounting principles in the United States; and

PRC GAAP refers to generally accepted accounting principles in the People's Republic of China.

This annual report on Form 20-F includes our audited consolidated statements of operations for the fiscal years ended March 31, 2009, 2010 and 2011 and audited consolidated balance sheets as of March 31, 2010 and 2011. Each of our ADSs represents two common shares. Our ADSs are listed on the Nasdaq Global Market under the symbol ATAI.

**FORWARD-LOOKING STATEMENTS**

This annual report on Form 20-F contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this annual report are forward-looking statements. In some cases, these forward-looking statements can be identified by words and phrases such as may, should, intend, predict, potential, continue, will, expect, estimate, plan, believe, is /are likely to or the negative form of these words and phrases or other comparable expressions. The forward-looking statements included in this annual report relate to, among others:

our goals and strategies;

our future prospects and market acceptance of our technologies, products and services;

our future business development and results of operations;

projected revenues, profits, earnings and other estimated financial information;

our plans to expand and enhance our products and services;

competition in the computer-based testing, educational services and test preparation and training markets; and

Chinese laws, regulations and policies, including those applicable to the education industry, Internet content providers, Internet content and foreign exchange.

These forward-looking statements involve various risks, assumptions and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may turn out to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in Item 3.D. of this annual report, Key information Risk Factors and elsewhere in this annual report.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. All forward-looking statements included herein attributable to us

or other parties or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

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This annual report also contains information and statistics relating to China's economy and the industries in which we operate derived from various publications issued by Chinese governmental entities and other third parties which have not been independently verified by us. The information in such third-party sources may not be consistent with other information compiled in or outside China. We have taken such care as we consider reasonable in the reproduction and extraction of information from third-party sources.

**PART I.****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****A. Selected Financial Data****Selected Consolidated Financial Data**

The following selected consolidated statement of operations data for the fiscal years ended March 31, 2009, 2010 and 2011 (other than ADS data), and the selected consolidated balance sheet data as of March 31, 2010 and 2011, are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with these consolidated financial statements and related notes. Our selected consolidated statements of operations data for the years ended March 31, 2007 and 2008 (other than ADS data) and the selected consolidated balance sheet data as of March 31, 2007, 2008 and 2009 are derived from audited consolidated financial statements not included in this annual report. The following information should also be read in conjunction with Item 5.

Operating and Financial Review and Prospects. Our audited consolidated financial statements are prepared in accordance with U.S. GAAP.

|   | For the Year Ended March 31,                  |                |                |                |                |               |
|---|---|----------------|----------------|----------------|----------------|---------------|
|   | 2007<br>RMB                                   | 2008<br>RMB    | 2009<br>RMB    | 2010<br>RMB    | 2011<br>RMB    | US\$          |
|   | (In thousands, except for share and ADS data) |                |                |                |                |               |
| <b>Selected Consolidated Statements of Operations Data:</b> |   |                |                |                |                |               |
| Net Revenues  |   |                |                |                |                |               |
| Testing services  | 24,628  | 78,198         | 137,046        | 187,158        | 243,103        | 37,125        |
| Test-based educational services                             | 42,804  | 48,594         | 42,546         | 31,787         | 25,727         | 3,929         |
| Test preparation and training solutions                     | 10,076  | 36,908         | 25,071         | 11,149         | 15,427         | 2,356         |
| Other   | 7,373   | 8,388          | 12,882         | 14,938         | 19,647         | 3,000         |
| <b>Total net revenues</b>                                   | <b>84,881</b>                                 | <b>172,088</b> | <b>217,545</b> | <b>245,032</b> | <b>303,904</b> | <b>46,410</b> |
| Gross profit  | 43,779  | 105,141        | 124,937        | 115,497        | 154,688        | 23,623        |
| Total operating expenses                                    | 63,375  | 81,713         | 98,549         | 145,552        | 133,796        | 20,432        |
| Income (loss) from operations                               | (19,596)                                      | 23,428         | 26,388         | (30,055)       | 20,892         | 3,191         |
| Foreign currency exchange gains (losses), net               | (909)   | (236)          | 665            | (284)          | 1,138          | 174           |
| Income tax benefit (expense)                                | 1,793   | (7,321)        | (6,638)        | (5,742)        | (3,312)        | (506)         |

|                          |                 |               |               |                 |               |              |
|--------------------------|-----------------|---------------|---------------|-----------------|---------------|--------------|
| <b>Net income (loss)</b> | <b>(16,790)</b> | <b>20,170</b> | <b>22,810</b> | <b>(35,350)</b> | <b>19,754</b> | <b>3,017</b> |
|--------------------------|-----------------|---------------|---------------|-----------------|---------------|--------------|

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|   | <b>For the Year Ended March 31,</b>           |             |             |             |             | <b>US\$</b> |
|---|---|-------------|-------------|-------------|-------------|-------------|
|   | <b>2007</b>                                   | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |             |
|   | <b>RMB</b>                                    | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |             |
|   | (In thousands, except for share and ADS data) |             |             |             |             |             |
| Basic earnings (loss) per common share              | (0.82)  | 0.79        | 0.50        | (0.79)      | 0.44        | 0.07        |
| Diluted earnings (loss) per common share            | (0.82)  | 0.53        | 0.49        | (0.79)      | 0.44        | 0.07        |
| Basic earnings (loss) per ADS (1)                   | (1.64)  | 1.58        | 1.00        | (1.58)      | 0.88        | 0.14        |
| Diluted earnings (loss) per ADS (1)                 | (1.64)  | 1.06        | 0.98        | (1.58)      | 0.88        | 0.14        |
| <b>Weighted average ordinary shares outstanding</b> |   |             |             |             |             |             |
| Basic   | 20,594,071                                    | 25,442,650  | 45,376,008  | 44,789,512  | 44,469,182  |             |
| Diluted   | 20,594,071                                    | 37,761,561  | 46,431,518  | 44,789,512  | 44,469,182  |             |

(1) Each ADS represents two common shares.

|  | <b>At March 31,</b> |             |             |             |             | <b>US\$</b> |
|--|---------------------|-------------|-------------|-------------|-------------|-------------|
|  | <b>2007</b>         | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |             |
|  | <b>RMB</b>          | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |             |
|  | (In thousands)      |             |             |             |             |             |
| <b>Selected Consolidated Balance Sheet Data:</b> |                     |             |             |             |             |             |
| Cash   | 45,019              | 332,197     | 310,503     | 213,874     | 268,058     | 40,936      |
| Accounts receivable, net                         | 16,978              | 63,502      | 71,077      | 82,900      | 47,052      | 7,185       |
| Total current assets                             | 76,656              | 403,309     | 399,002     | 309,074     | 325,491     | 49,706      |
| Total assets                                     | 108,165             | 436,634     | 471,245     | 428,503     | 435,447     | 66,498      |
| Deferred revenues, current                       | 26,341              | 36,708      | 40,238      | 25,837      | 19,101      | 2,917       |
| Total current liabilities                        | 45,620              | 66,530      | 85,189      | 78,223      | 67,448      | 10,300      |
| Deferred revenues, non-current                   | 7,897               | 7,026       | 5,626       | 4,674       | 3,824       | 584         |
| Total liabilities                                | 53,517              | 73,556      | 91,004      | 83,028      | 71,384      | 10,901      |
| Accumulated deficit                              | (135,082)           | (114,912)   | (92,102)    | (127,452)   | (107,698)   | (16,447)    |
| Total shareholders equity                        | 54,648              | 363,078     | 380,241     | 345,475     | 364,063     | 55,597      |

|                            | <b>For the Year Ended March 31,</b> |             |             |             |             |
|----------------------------|-------------------------------------|-------------|-------------|-------------|-------------|
|                            | <b>2007</b>                         | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> |
| <b>Key Operating Data:</b> |                                     |             |             |             |             |

|                           |           |            |           |           |           |
|---------------------------|-----------|------------|-----------|-----------|-----------|
| Number of tests delivered |           |            |           |           |           |
| (1)                       | 3,335,701 | 12,787,470 | 5,063,379 | 5,760,147 | 7,162,462 |

- (1) Includes Microsoft royalty tests overseas and tests delivered through our test delivery platform and tests using our Dynamic Simulation Technology. Also includes free tests delivered for business development purpose. The number of tests delivered excluding the free tests in the fiscal years ended March 31, 2007, 2008, 2009, 2010 and 2011 was 3,335,701, 3,632,285, 5,063,379, 5,760,147 and 6,907,158, respectively. We delivered 9,155,185 free tests in the fiscal year ended March 31, 2008 for the on-line nationwide accounting knowledge contest.

### Exchange Rate Information

We conduct our business primarily in China and a substantial majority of our revenues and expenses are denominated in Renminbi. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB6.5483 to US\$1.00, which was the noon buying rate in effect as of March 31, 2011. The noon buying rate on June 10, 2011 was RMB6.4801 to US\$1.00. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The Chinese government restricts or prohibits the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report.

|                                  | Renminbi per U.S. Dollar Noon Buying Rate |        |        |            |
|----------------------------------|---|--------|--------|------------|
|                                  | Average (1)                               | High   | Low    | Period-end |
| Fiscal year ended March 31, 2007 | 7.8843                                    | 8.0300 | 7.7232 | 7.7232     |
| Fiscal year ended March 31, 2008 | 7.4197                                    | 7.7345 | 7.0105 | 7.0120     |
| Fiscal year ended March 31, 2009 | 6.8684                                    | 7.0185 | 6.7800 | 6.8329     |
| Fiscal year ended March 31, 2010 | 6.8268                                    | 6.8319 | 6.8180 | 6.8258     |
| Fiscal year ended March 31, 2011 | 6.5645                                    | 6.5743 | 6.5483 | 6.5483     |

|                                    | Renminbi per U.S. Dollar Noon Buying Rate |        |        |            |
|------------------------------------|---|--------|--------|------------|
|                                    | Average (1)                               | High   | Low    | Period-end |
| Most recent six months:            |   |        |        |            |
| December 2011                      | 6.6497                                    | 6.6745 | 6.6000 | 6.6000     |
| January 2011                       | 6.5964                                    | 6.6364 | 6.5809 | 6.6017     |
| February 2011                      | 6.5761                                    | 6.5965 | 6.5520 | 6.5713     |
| March 2011                         | 6.5645                                    | 6.5743 | 6.5483 | 6.5483     |
| April 2011                         | 6.5267                                    | 6.5477 | 6.4900 | 6.4900     |
| May 2011                           | 6.4957                                    | 6.5073 | 6.4786 | 6.4786     |
| June 2011 (period through June 10) | 6.4790                                    | 6.4824 | 6.4754 | 6.4801     |

Source: H.10 weekly statistical release of the Federal Reserve Board

- (1) Annual averages are calculated using the exchange rates for the last day of each month during the relevant year. Monthly averages are calculated using daily exchange rates during the month.

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**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

**Risks Relating to Our Business**

*If we are not successful in achieving market acceptance for our new service offerings, our revenues and operating results will be adversely affected.*

In order to increase our revenue sources, we have allocated, and intend to continue to allocate, time, effort and capital to expand our service offerings, including our HR Select employee assessment solution, distribution and administration of the Test of English for International Communication, or TOEIC exam in China and Cambridge ESOL Young Learners English online tutorials, all of which we launched in 2009. We generated RMB1.2 million, RMB29.8 million, and RMB54.8 million from the HR Select, TOEIC and Cambridge ESOL Young Learners English lines of business in 2009, 2010, and 2011, respectively. As the markets for these offerings are relatively new for us, we cannot assure you that we will succeed in adapting to client needs in these markets or effectively addressing risks associated with this expansion. It may be difficult for us to accurately predict demand for these and other new service offerings we develop. Furthermore, the Chinese government may enact unforeseen regulations and policies that could limit our ability to provide or expand certain services, such as prohibitions on foreign-invested entities engaging in certain businesses. Additional risks which we face expanding in this market include the following:

we may underestimate the amount of capital, personnel and other resources required to carry out our expansion plans, which may affect the success of our expansion and/or negatively impact the quality of our other product and service offerings;

if we are unsuccessful in the relevant new market, it may negatively affect our reputation and the status of our brand in our other markets;

we may fail to develop sufficient payment collection, technical support and other administrative capabilities necessary to successfully develop and manage our new service offerings on an increasingly large scale.

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The success of our new service offerings going forward also depends on our ability to gain and maintain relevant business relationships, such as our relationship with Educational Testing Services, or ETS, in relation to our distribution and administration of TOEIC exams in China and our relationship with the Ministry of Education and Cambridge ESOL in relation to our Cambridge ESOL Young Learners English online tutorials. If our new service offerings are ultimately unsuccessful or do not grow as rapidly as we expect, our net revenues and profitability will be adversely affected.

***Our financial results are subject to fluctuations and seasonality related to the revenue cycles for our products and services, our relatively long and unpredictable sales cycle and other factors beyond our control, any of which may decrease our revenues in a particular period. As a result, it is difficult for us to predict our results of operations and you should not rely on our historical operating results as an indication of our future financial performance.***

Our results of operations have varied in the past from period to period, and are likely to vary in the future, due to the fact that a substantial portion of our sources of revenues are seasonal. We have experienced seasonality and expect in the future to continue to experience seasonality in net revenues and accounts receivable related to our test delivery services, with the quarters ending June 30 and December 31 typically having higher net revenues from testing services and the quarters ending September 30 and March 31 typically having lower net revenues from testing services. This is primarily because the tests from which we derive substantial revenues are mostly delivered in the quarters ending June 30 and December 31. Test timing can be a major contributing factor to quarterly fluctuations of financial results. For example, we had RMB33.3 million (US\$5.1 million) in the quarter ended September 30, 2010 as compared to RMB135.9 million (US\$20.8 million) in revenues in the quarter ended December 31, 2010 primarily because our major test sponsors, the Securities Association of China, chose to hold tests during the third quarter instead of the second quarter this year. Demand for test preparation and training solutions are generally highest close to test and certification requirement deadlines, which are typically during the quarter ending December 31. Therefore we expect revenues from test preparation and training solutions to be the highest in the quarter ending December 31.

In addition, our sales cycles are generally long and unpredictable. A client's decision to purchase our products and services often involves a lengthy evaluation process. Throughout the sales cycle, we often spend considerable time educating and providing information to prospective clients regarding the use and benefits of our products and services. Moreover, budget constraints and the need for multiple approvals within large enterprises, governmental agencies and educational institutions may also delay purchasing decisions. As a result, the sales cycle for our services may last a year or longer. Such a lengthy sales cycle, and any future increases in our sales cycle, could lead to higher sales and marketing expenses and adversely affect our cash flow from operations. In addition, the lengthy sales cycle has made, and may continue to make, our financial results prone to fluctuations or decrease our revenues in a particular period.

If our revenues for a particular quarter are lower than we expect, we may be unable to reduce our operating expenses for that quarter by a corresponding amount, which could negatively affect our operating results for that quarter. As a result, you should not rely on our quarter-to-quarter comparisons of our operating results as indicators of likely future performance. Our operating results may be below the expectations of public market analysts and investors in one or more future quarters. If that occurs, the market price of our ADSs could decline and you could lose part or all of your investment. Fluctuations of our quarterly financial results may also lead to increased volatility in the market price of our ADSs.

***The Chinese market for our services is still emerging and evolving rapidly. If market acceptance of our products and services declines or fails to grow, our revenue growth may slow or we may experience a decrease in revenues.***

As the Chinese market for our services is still emerging, our success will depend to a large extent on our ability to convince our clients that our technologies and services are valuable and that it is more cost-effective for them to utilize our services than for them to develop similar services in-house.

We must address the following concerns, among others, with our clients as they decide to implement our computer-based testing and career-oriented educational services and to use our technologies and services:

- concern over the commitment of time, personnel and funding necessary to implement our computer-based testing services and career-oriented educational services;

ability of clients to develop their own computer-based testing services or career-oriented educational services;

possible perceived security and academic integrity risks associated with computer-based testing services and third-party curriculum providers;

reluctance of the academic community to adopt computer-based learning materials and computer-based tests;  
and

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A decline in the demand for computer-based testing services by test sponsors would negatively affect demand for our computer-based testing services and technologies. Even if demand for computer-based testing services continues to grow, this demand may not grow as quickly as we anticipate.

The services offered by our HR Select employee assessment solution are relatively new and market acceptance of this innovative testing product is uncertain. Furthermore, we only generate revenues from a small amount of our HR Select customers for now. If we are unable to increase or maintain customer demand for this product, in particular demand by paying customers, our revenue growth may slow or we may experience a decrease in revenues.

***Breaches or perceived breaches of our security measures relating to test collection, scoring and storage or unauthorized disclosure or misuse of personal data through breach of our computer systems or otherwise could cause us to receive negative publicity, and lose clients and expose us to protracted and costly litigation.***

As part of our service offerings, we collect, process, transmit and store highly confidential information, including personal information and test questions, answers and scores. Maintaining the security and confidentiality of the information we handle as part of our testing services is essential to protecting the integrity and accuracy of the test taking process and retaining our client base. Any breach or perceived breach in our security measures pertaining to the collection, processing, transmission or storage of such information as a result of third-party action, employee error, and malfeasance or otherwise could result in liability claims and have a negative impact on our reputation.

Additionally, we could be subject to liability claims or regulatory penalties for misuses of information collected from clients or students or for the unauthorized disclosure or unauthorized or inappropriate use of such information. Any such negative publicity or liability claims could have a significant negative impact on our future business, cause us to lose clients and expose us to costly litigation.

***Reductions in public funding available to our clients that are governmental agencies could adversely impact demand by these agencies and institutions for our products and services.***

We have derived a significant portion of our total net revenues from licensing and service fees from Chinese governmental agencies. Demand and ability to pay for our products and services by these agencies are affected by government budgetary cycles, funding availability and government policies. Funding reductions, reallocations or delays could adversely impact demand for our products and services by our clients or reduce the fees these clients are willing to pay for our products and services. For example, in the fiscal year ended March 31, 2010, NTET sales decreased significantly relative to the previous fiscal years, due to the delay in the government's implementation of the national NTET certification requirement and the associated cuts in relevant government budgets. We had no NTET sales in the fiscal year ended March 31, 2011.

***A limited number of our clients have accounted and are expected to continue to account for a high percentage of our revenues. The loss of or significant reduction in orders from any of these clients could significantly reduce our revenues and have a material adverse effect on our results of operations.***

Our two largest clients in the fiscal year ended March 31, 2011, the Securities Association of China and the China Banking Association, accounted for 38.1% and 17.0%, respectively, of our net revenues for that period. In 2006, we signed a five-year master service agreement from September 2006 to September 2011 with the Securities Association of China. In 2009, we participated in a bid to administer testing services for the Securities Association of China and won the right to service the Securities Association of China for a term of three years from 2010 to 2012. Pursuant to the five-year master agreement and the bid award notice, we enter into an annual contract with the Securities Association of China each year. Our top five clients for the fiscal year ended March 31, 2011 accounted for 67.4% of our net revenues for the fiscal year ended March 31, 2011. Due to our dependence on a limited number of clients, any one of the following events, among others, could cause material fluctuations or declines in our revenues and have a material adverse effect on our results of operations:

- a reduction, delay or cancellation of contracts or product or service orders from one or more of our significant clients;

- a decision by one or more of our significant clients to award contracts or orders to one of our competitors; and

- a decision by one or more of our major clients to significantly reduce the price they are willing to pay for our services or products.



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Any of these events could occur due to causes outside of our control, such as macro-economic conditions, changes in a client's management or the personnel with whom we interact, changes in technology, the actions of our competitors, changes in governmental regulations and policies and changes in a client's budgeting or financial prospects.

***A significant portion of our revenues are dependent on market acceptance of our E-testing platform and other computer-based testing technologies, and if we are unable to anticipate and meet our client's technological needs and challenges from new technologies and industry standards, our products and services may lose market acceptance or become obsolete, and our margins and results of operations may be adversely affected.***

Our advanced technologies for the creation and delivery of computer-based tests, including our E-testing platform and our performance-based testing technologies, are a key factor in growing and maintaining our relationships with test sponsors, educational institution clients and educational program content providers. Our future success depends on our ability to upgrade our systems, develop new technologies and anticipate and meet the technical needs of our clients on a regular basis. The emergence in the market of new test creation and delivery technologies or substitute products and services could reduce the competitiveness or result in the obsolescence of our current technologies and services. Moreover, if other companies develop similar technologies offering functionality comparable to that of our technologies, pricing pressure may increase and our margins and results of operations may be adversely affected. Additionally, industry standards such as standard interfaces and data exchange protocols may be developed for testing technologies, and if these industry standards are incompatible with our technologies, demand for our technologies, products and services may decline significantly. To the extent we are unable to maintain our market leadership position in key testing technologies or anticipate and respond to technological developments and changes in industry standards in a timely and cost-effective manner, our products and services may lose market acceptance or become obsolete.

***Substantial defaults by our clients on accounts receivable could have a material adverse effect on our results of operations and financial condition.***

Our accounts receivable as of March 31, 2011 were RMB47.1 million (\$7.2 million), of which RMB 27.1 million were attributable to the Securities Association of China. We also had accounts receivable aged over one year of RMB1.0 million (\$0.2 million) as of March 31, 2011, primarily relating to the Professional Skills Qualification Center of the PRC Ministry of Human Resources and Social Security. If clients which owe us accounts receivable were to become insolvent or otherwise unable to pay for our services or make payments in a timely manner, our liquidity would be adversely affected and we would have to write off accounts receivable or increase provisions against our accounts receivable, any of which could adversely affect our results of operations and financial conditions.

***If Microsoft exercises its contractual option to acquire the source code of our Dynamic Simulation Technology, or DST, Microsoft or a company to which Microsoft licenses or sells such technology may be able to more effectively compete with us.***

Under our Simulation Technology License Agreement with Microsoft, Microsoft has the right to acquire for \$3.0 million a perpetual royalty-free license to the source code of our Dynamic Simulation Technology, or DST, along with the right to freely sell, license or sublicense the DST source code to third parties. The contract does not restrict which entities to which Microsoft may sell, license or sublicense the DST source code. While Microsoft's exercise of this option would generate \$3.0 million in revenue to us upon exercise, it may materially adversely affect our future revenues if Microsoft or any company to which Microsoft sells or licenses the technology uses it to directly compete with us.

In addition, Microsoft has the right to obtain more limited rights to the source code in the event ATA is in continuing breach of any of its obligations regarding technical support and correction of programming errors. Upon the occurrence of a continuing breach, Microsoft would obtain the right to freely install, make, use, reproduce, copy, modify, translate, edit and otherwise create derivative works of the DST source code and to sublicense any of the foregoing rights to third parties, excluding certain of our competitors in the computer-based testing services market.

***Technical errors or failures in relation to computer-based tests delivered through our test delivery platform could result in negative publicity, loss of clients, liability claims and costly and disruptive litigation.***

Due to the complexity of the technologies we have developed and use to create and deliver computer-based tests for our clients, there is a risk that technical errors or failures may occur in relation to these services. These may



include errors, failures or bugs in our self-developed software applications and test security technologies, breakdowns or failures of our servers and computer networks, and

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connectivity failures between our networks. While we have not to date experienced major problems due to errors, breakdowns, failures, bugs or defects, we cannot assure you that we will not experience such problems in the future. If such a problem were to occur, it could disrupt or compromise the integrity of the test taking process or of test content and results, which could lead to negative publicity and loss of clients and may subject us to liability claims. Although we have established a formal crisis management system to respond to technical problems, it has never been tested in a real crisis situation. Any litigation or negative publicity resulting from an error or failure, with or without merit, could result in substantial costs and divert management's attention and resources from our business and operations.

***If we fail to maintain a strong brand identity, our business may not grow and our financial results may be adversely impacted.***

We believe that maintaining and enhancing the value of the ATA brand is important to attracting clients. Our success in maintaining brand awareness will depend on our ability to consistently provide high quality, value-adding, user-friendly and secure products and services. As we expand our product and service offerings, we are increasing our efforts to establish a wider recognition of the ATA brand. To establish a wider recognition of our ATA brand among test takers, test sponsors and companies, we may need to spend significant resources on advertising. As we have limited experience with advertising and other activities required to establish a widely recognized brand, we cannot assure you that we will effectively allocate our resources for these activities or succeed in maintaining and broadening our brand recognition and appeal. If we fail to maintain a strong brand identity, our business may not grow and our financial results may be adversely impacted.

***Actions by our authorized test centers could lead to damage to our brand and reputation, which could cause us to incur substantial costs and strain our relationships with our clients.***

As of March 31, 2011, we had contractual relationships with 2,018 authorized test centers. We do not own these centers and their employees are not our employees. Under our contracts with these test centers, we require them to provide sufficient facilities to properly administer computer-based tests and to follow prescribed guidelines for facility maintenance and test administration. We also conduct regular reviews of their facilities and operations and provide consulting services on test administration. However, our contractual arrangements with the test centers provide us with only limited ability to oversee their activities, and most test centers engage in other activities, such as serving as classrooms, when not administering tests. If a test center were to engage in unauthorized or unlawful conduct, whether related to administering computer-based tests or otherwise, our clients, prospective clients and the general public may associate this conduct with our brand, and negative publicity associated with this conduct could harm our reputation and lessen overall demand for computer-based testing services. Furthermore, our business may also be adversely affected if our authorized test centers do not maintain their premises, administer our computer-based tests in a manner consistent with our standards and requirements, or hire qualified personnel and train them properly. In addition, a liability claim against an ATA authorized test center or any center personnel may result in unfavorable publicity for us, our products and services and our other test centers, and could damage our brand and reputation, whether or not the claim is successful. While we may terminate our contracts and relationships with our authorized test centers if any of these events were to occur, we may not be able to identify problems or take action quickly enough to prevent harm to our reputation.

***We may face increasing competition from international and domestic Chinese competitors. If we fail to successfully compete, our revenues and market share may decrease, and our results of operations may be adversely affected.***

We anticipate that as our business and markets continue to expand, we will face increasing competition, including competition from new entrants, both domestic and international, who will try to gain market share from us. In the future, competitors may introduce new technologies, products and services that have better performance, offer lower prices and gain broader acceptance than our technologies, products and services. Such new products may reduce the overall market for our products and services.

In the computer-based testing services market, we compete primarily on the basis of technology, price, management experience and established infrastructure. In the future, as more companies enter this market, we believe pricing may become increasingly competitive as well. For our HR Select employee assessment solution, while there are other companies providing services to corporate human resources departments, we are differentiated by our focus

on offering more professional testing services with proprietary testing technologies. Traditional Chinese test preparation material providers, such as publishing companies, indirectly compete with our test preparation and training solutions. Increased competition could cause us to lose clients or make it necessary for us to reduce our prices in order to retain our clients, which may negatively affect our revenues and results of operations.

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***We depend on our key personnel and our business may be severely disrupted if we lose their services and are unable to replace them.***

Our future success is dependent upon the continued services of our key executives, as we rely on their industry experience and expertise in our business operations. In particular, we rely heavily on our co-founders Kevin Xiaofeng Ma, our chairman and chief executive officer, and Walter Lin Wang, our president, for their business vision, management skills, technical expertise, experience in the testing, IT and education industries and working relationships with many of our clients, shareholders and other participants in the testing, IT and education industries. If either Mr. Ma or Mr. Wang was unable or unwilling to continue in their present positions, or if they joined a competitor or formed a competing company in violation of their employment agreements, we may not be able to replace them easily and our business may be severely disrupted. We do not maintain key-man life insurance for Mr. Ma or Mr. Wang or for any of our other employees.

***Because competition for highly skilled employees is intense, we may not be able to attract and retain the highly skilled employees we need to support our planned growth.***

Due to intense market competition for highly skilled workers, we have faced difficulties locating experienced and skilled personnel in certain areas, such as administration, marketing, product development, sales, finance and accounting. In particular, we have had difficulty finding personnel with experience in the relatively new computer-based testing services market. We cannot assure you that we will be able to attract or retain the key personnel that we will need to achieve our business objectives. Even if we can find qualified candidates, they may be subject to non-competition agreements with their prior employers that prevent us from hiring them. In addition, we cannot assure you that we will be able to retain our current skilled personnel. According to our contracts with our employees, all of our employees are prohibited from engaging in any activities that compete with our business during the period of their employment and for two years after termination of their employment with us. Furthermore, all employees are prohibited, for a period of two years following termination, from soliciting other employees to leave us and, for a period of five years following termination, from soliciting our existing clients. However, we may have difficulty enforcing these non-competition and non-solicitation provisions in China because the Chinese legal system, especially with respect to the enforcement of such provisions, is still developing.

***Many of our contracts with governmental agencies and public educational institutions take the form of framework agreements and offer little contractual or legal protections, and it may be impractical for us to pursue or obtain legal remedies against these clients.***

Many governmental agencies and other public sector entities in China require the use of simple framework agreements for the procurement of products and services from us that lack many of the detailed aspects of our business arrangement. For example, the terms of service may lack the clarity we would normally have in our contracts with commercial enterprises, or contract terms to protect our intellectual property may not be as clear and detailed as we would normally have in our contracts with commercial enterprises. Moreover, it may not be feasible or practicable under current Chinese law and practice for us to take legal action against our government and public sector clients to enforce our contractual rights. As a result, we may lack the same contractual or legal protections, or ability to enforce such protections, that we would normally have under the contracts we typically enter into with our other clients.

***Unauthorized use of our intellectual property by third parties, including infringement of our ATA brand, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.***

Our copyrights, trademarks, trade secrets and other intellectual property are important to our success. In particular, we believe that our ATA brand name represents a valuable asset as we have sought to gain a reputation for high quality and secure testing services and advanced testing technologies within our markets. Unauthorized use of any of our intellectual property may adversely affect our business and reputation. We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, clients, business partners and others to protect our intellectual property rights. Nevertheless, it may be possible for third parties to obtain and use our intellectual property without authorization. The unauthorized use of intellectual property is common and widespread in China and enforcement of intellectual property rights by Chinese regulatory agencies is inconsistent. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our management's attention and resources, and could disrupt our business, as well as

have a material adverse effect on our financial condition and results of operations. Given the relative unpredictability of China's legal system and potential difficulties enforcing a court judgment in China, there is no guarantee that we would be able to halt the unauthorized use of our intellectual property through litigation.

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***We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.***

We cannot assure you that our software and other technologies do not or will not infringe upon patents, valid copyrights or other intellectual property rights held by third parties. We may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. For example, we have been unable to register our ATA trademark with the China Trademark Office due to similarity with other marks. Although we have not received notice of trademark infringement claims since we began using the mark in 1999 and believe that the risk of litigation is remote, we may be subject to such claims in the future. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses, and may be forced to divert management and other resources from our business operations, to defend against these third-party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities or may materially disrupt the conduct of our business by restricting or prohibiting our use of the intellectual property in question.

***Because there is limited business insurance coverage in China, any business disruption or litigation we experience might result in our incurring substantial costs and diverting significant resources to handle such disruption or litigation.***

The insurance industry in China is not fully developed. Insurance companies in China offer limited business insurance products. While business disruption insurance may be available to a limited extent in China, we have determined that the risks of disruption and the difficulties and costs associated with acquiring such insurance render it commercially impractical for us to have such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Any business disruption or litigation might result in our incurring substantial costs and the diversion of resources.

***We may face challenges and risks in connection with possible acquisitions, including identifying suitable opportunities and integrating acquired businesses and assets with our existing operations, which could interrupt our business operations or adversely affect our results of operations.***

As part of our business strategy, we may seek to broaden our service offerings, obtain additional clients and strengthen our service quality by acquiring other companies or businesses. However, our ability to implement our acquisition strategy will depend on a number of factors, including the availability of suitable acquisition candidates at an acceptable cost or at all, our ability to compete effectively to attract and reach agreement with acquisition candidates or joint venture partners on commercially reasonable terms, and the availability of financing to complete acquisitions or joint ventures as well as our ability to obtain any required government approvals or licenses. In addition, we cannot assure you that any particular acquisition or joint venture transaction will produce the intended benefits or synergies. For example, we may not be successful in integrating acquisitions with our existing operations and personnel. Moreover, the acquisitions we pursue may require us to expend significant management and other resources, which may result in interruption to our business operations.

There are other risks associated with acquisitions, including:

unforeseen or hidden liabilities, including exposure to legal proceedings, associated with newly acquired companies;

failure to generate sufficient revenues to offset the costs and expenses of acquisitions;

integration of the management of the acquired business into our own;

potential impairment losses or amortization expenses relating to goodwill and intangible assets arising from any of such acquisitions, which may materially reduce our net income or result in a net loss;

potential conflicts with our existing employees as a result of our integration of newly acquired companies; and

possible contravention of Chinese regulations applicable to such acquisitions.

Furthermore, raising capital to finance acquisitions could cause earnings or ownership dilution to your shareholding interests, which in turn could result in losses to you. Any one or a combination of the above risks could interrupt our business operations and adversely affect our results of operations.