CHINA EDUCATION ALLIANCE INC.
Form 10-Q
May 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

¨TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _______________ to ______________

Commission file number: **001-34386**

CHINA EDUCATION ALLIANCE, INC.

(Exact name of registrant as specified in its charter)

North Carolina	56-2012361
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

58 Heng Shan Road, Kun Lun Shopping Mall,
Harbin, People's Republic of China **150090**
(Address of principal executive offices) (Zip Code)

86-451-8233-5794
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed 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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

As of May 14, 2012, there were 10,582,503 shares of $0.001 par value common stock issued and outstanding.

FORM 10-Q

CHINA EDUCATION ALLIANCE, INC.

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PART I –FINANCIAL INFORMATION

Item 1. Financial Statements

China Education Alliance, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$72,808,247	$73,597,159
Accounts receivable	106,936	-
Other receivables	650,319	652,526
Prepaid expenses	920,721	1,305,496
Total current assets	74,486,223	75,555,181
Non-current Assets		
Note receivable	7,921,169	7,869,678
Property and equipment, net	13,247,425	14,203,136
Intangibles and capitalized software, net	11,980,932	12,420,620
Deferred tax assets	432,768	316,737
Total non-current assets	33,582,294	34,810,171
Total Assets	$108,068,517	$110,365,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$404,146	$1,430,499
Deferred revenue	950,216	2,277,620
Income tax and other taxes payable	185,574	532,254
Due to a stockholder	132,511	131,650
Total current liabilities	1,672,447	4,372,023
Commitments and Contingent Liabilities	-	-
Stockholders' Equity		
	10,583	10,583

Common stock ($0.001 par value, 150,000,000 shares authorized, 10,582,503 and 10,582,503 issued at March 31, 2012 and December 31, 2011, respectively; and 137,512 shares held in treasury)		
Additional paid-in capital	40,938,748	40,936,106
Statutory reserve	3,792,161	3,792,161
Retained earnings	50,007,847	50,249,040
Accumulated other comprehensive income	9,935,080	9,267,585
Less: Treasury stock	(977,072)	(977,072)
Stockholders' equity - CEAI and Subsidiaries	103,707,347	103,278,403
Noncontrolling interests in subsidiaries	2,688,723	2,714,926
Total stockholders' equity	106,396,070	105,993,329
Total Liabilities and Stockholders' Equity	$108,068,517	$110,365,352

The accompanying notes are an integral part of these condensed consolidated financial statements.

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China Education Alliance, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	March 31, 2012	2011 (Restated)
Revenue		
Online education revenue	$2,063,089	$3,973,561
Training center revenue	2,746,518	3,026,843
Total revenue	4,809,607	7,000,404
Cost of Revenue		
Online education costs	1,766,775	1,701,300
Training center costs	841,196	676,116
Total cost of revenue	2,607,971	2,377,416
Gross Profit		
Online education gross profit	296,314	2,272,261
Training center gross profit	1,905,322	2,350,726
Total gross profit	2,201,636	4,622,987
Operating Expenses		
Selling expenses	1,068,835	2,426,297
Administrative	1,024,985	2,449,891
Depreciation and amortization	824,611	317,862
Total operating expenses	2,918,431	5,194,050
Loss from operations	(716,795)	(571,063)
Other Income (Expense)		
Other expenses, net	(7,745)	(59,857)
Loss on disposal of fixed assets	(15,818)	(141,912)
Interest income	482,936	443,935
Total other income, net	459,373	242,166
Net Loss Before Provision for Income Tax	(257,422)	(328,897)
Income taxes:		
Current	-	-
Deferred	(117,060)	(106,027)
Net Loss	(140,362)	(222,870)
Net Loss attributable to the noncontrolling interests	(26,203)	(48,340)
Net Loss - attributable to CEAI and Subsidiaries	$(114,159)	$(174,530)

Net Loss per common stock-basic and diluted	$(0.01)	$(0.02)
Weighted Average Shares Outstanding-basic and diluted	10,582,503	10,325,603
The Components of Other Comprehensive Income		
Net Loss	$(114,159)	$(174,530)
Foreign currency translation adjustment	667,495	522,259
Comprehensive income	$553,336	$347,729

The accompanying notes are an integral part of these condensed consolidated financial statements.

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China Education Alliance, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	March 31, 2012	2011 (Restated)
Cash flows from operating activities		
Net Loss	$(140,362)	$(222,870)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	824,611	317,862
Depreciation and amortization - cost of revenue	710,517	423,364
Loan to Nanchang Institute of Technology	-	(381,673)
Loss on disposal of fixed assets	15,818	141,912
Bad debt written off on other receivables	18,905	-
Stock based compensation	2,642	1,112,158
Loss attibutable to the noncontrolling interests	-	(10,239)
Net changes in operating assets and liabilities		
Accounts receivable	(107,184)	(80,213)
Prepaid expenses and other receivables	381,728	580,814
Deferred tax assets	(114,223)	(163,278)
Accounts payable and accrued liabilities	(1,036,791)	(29,412)
Income tax and other taxes payable	(346,680)	(506,722)
Deferred revenue	(1,345,418)	(404,358)
Net cash (used in) provided by operating activities	(1,136,437)	777,345
Cash flows from investing activities		
Purchases of property and equipment	(4,729)	(24,299)
Proceeds from disposal of fixed assets	4,100	15,420
Cash used for acquisitions	-	(5,340,658)
Net cash used in investing activities	(629)	(5,349,537)
Cash flows from financing activities		
Dividend distribution	(127,033)	-
Net cash used in financing activities	(127,033)	-
Effect of exchange rate changes on cash	475,187	1,313,584
Net decrease in cash	(788,912)	(3,258,608)
Cash and cash equivalents at beginning of period	73,597,159	71,105,415
Cash and cash equivalents at end of period	$72,808,247	$67,846,807

Supplemental disclosure of cash flow information		
Income tax paid	$101,269	$-
Non-cash adjustment to net income activities		
Loan to Nanchang Institute of Technology	$-	$381,673

The accompanying notes are an integral part of these condensed consolidated financial statements.

CHINA EDUCATION ALLIANCE, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of Business

Nature of organization - China Education Alliance, Inc. (the “Company”), formerly known as ABC Realty Co., was originally organized under the laws of the State of North Carolina on December 2, 1996. ABC Realty Co.’s primary purpose was to act as a broker or agent in residential real estate transactions. On September 15, 2004, ABC Realty Co. was reorganized pursuant to the Plan of Exchange to acquire Harbin Zhong He Li Da Education Technology, Inc. (“ZHLD”), a corporation formed on August 9, 2004 in the City of Harbin in the Heilongjiang Province, People’s Republic of China (the “PRC”), with an authorized capital of $60,386 (RMB500,000).

On September 15, 2004, ABC Realty Co. executed a Plan of Exchange with ZHLD and Duane C. Bennett, the former Chairman of ABC Realty Co., pursuant to which the shareholders of ZHLD exchanged all of their registered capital of $60,386 for 18,333,334 shares of common stock of the Company, or approximately 95% of the Company’s common stock. On November 17, 2004, ABC Realty Co. changed its name to China Education Alliance, Inc. On December 13, 2004, China Education Alliance, Inc. consummated the Plan of Exchange with ZHLD and ZHLD’s shareholders. As a result of the Plan of Exchange, the transaction was treated for accounting purposes as a recapitalization of ZHLD.

ZHLD is a technology company engaged in the online education industry in the PRC. Its mission is to promote online exam preparation services in the PRC, to improve the efficiency and effectiveness of elementary education, secondary education, vocational education, skill education, continuing education, and professional training programs, and to integrate with the international education system.

ZHLD’s subsidiary, Heilongjiang Zhonghe Education Training Center (“ZHTC”) was registered in the PRC on July 8, 2005 with a registered capital of $60,386 and is accounted for as a wholly owned subsidiary of ZHLD. ZHLD owns 99% of ZHTC with 1% held in trust by Xiqun Yu, the Company’s CEO, for the benefit of China Education Alliance, Inc.

ZHLD also owns 70% of Beijing Hua Yu Hui Zhong Technology Development Co., Ltd. (“BHYHZ”). BHYHZ was formed on September 30, 2006 in the PRC. The remaining 30% interest was given to The Vocational Education Guidance Center of China for no consideration. The 30% interest in BHYHZ that the Company transferred to The Vocational Education Guidance Center of China for no consideration was treated as an intangible asset.

On April 18, 2008, ZHLD entered into an agreement and supplementary agreement with Harbin Daily Newspaper Group (“Newspaper Group”) to invest in a joint venture company, Harbin New Discovery Media Co., Ltd. (“New Discovery”). ZHLD contributed RMB 3,000,000 (approximately, $430,000) and Newspaper Group contributed RMB 3,120,000 (approximately, $445,000) towards the registered capital of New Discovery. In return for their respective contributions, ZHLD own 49.02% equity interest and Newspaper Group own 50.98% equity interest in New Discovery. The parties are prohibited, for the duration of the joint venture from retiring or transferring their equity interests. In 2011, as the Company did not foresee any major contribution from this joint venture in the near future, the Company recognized an impairment loss on investments of $205,382 for the year ended December 31, 2011. Such impairment losses are reflected in other income and expense on the financial statements.

On January 4, 2009, China Education Alliance’s subsidiary, ZHLD entered into an agreement with Mr. Guang Li to jointly incorporate and invest in a joint venture company, Zhong He Li Da (Beijing) Management Consultant Co., Ltd. (“ZHLDBJ”). ZHLD contributed RMB 425,000 (approximately, $62,107), and Mr. Guang Li contributed RMB 75,000 (approximately, $10,960) towards the registered capital of ZHLDBJ, amounting to a total registered capital of 500,000 RMB (approximately, $73,067). In return for their respective contributions, ZHLD owns an 85% equity interest, and Mr. Guang Li owns a 15% equity interest in ZHLDBJ. ZHLD has authorized Mr. Xiqun Yu, the Company CEO, to hold 20% of its equity interest of ZHLDBJ on its behalf. ZHLDBJ will be involved in the vocational training business which includes IT engineering and accounting training, in particular, in running the “Million Managers Training Program”, with the goal of improving participants’ management skills and designing a complete solution for the management, clients and suppliers. However, this program is still in the planning stage. Towards the end of 2011, we have successfully developed a new project called the “Zhong He Win-Win Program”, which is designed to satisfy the needs of Chinese entrepreneurs to improve their leadership, management and marketing skills, as well as bottom-line performances. Our comprehensive business training initiatives integrate research-based, proprietary content with processes that are specifically connected to the critical business issues that most private Chinese companies are facing.

In February 2010, the Company, through its wholly owned subsidiary, ZHLD, incorporated a new company in the PRC, Beijing New Shifan Education & Technology Co., Ltd. ("New Shifan") with a registered capital of RMB 1.95 million (approximately $291,132). ZHLD owned a 65% equity interest in New Shifan and the other equity holders together owned a 35% equity interest in New Shifan. In September 2011, New Shifan changed its name to Beijing Hua Yu Ping Xue Education Technology Co., Ltd ("HYPX"). In October 2011, ZHLD took over the 35% equity interest from the other equity holders of HYPX without any consideration, and authorized Mr. Xiqun Yu to hold the 35% equity interest on behalf of ZHLD. In November 2011, HYPX increased its share capital to RMB 2 million (approximately $298,567). In January 2012, due to the changed government rules, the Company authorized Mr. Yu to hold the 100% equity interest on behalf of ZHLD. HYPX is focusing on expanding our training centers in Beijing, and developing extensive marketing strategy to establish new markets in other main cities.

On March 4, 2011, the Company entered into a management agreement (the "Management Agreement") with Nanchang Institute of Technology ("NIT"), a vocational training institution based in Nanchang, PRC. Pursuant to the Agreement, the Company will assist in managing the daily operations of NIT for ten years for an annual management fee of RMB 10 million (approximately $1,461,347). The management fee is payable on a quarterly basis and in the event of late payment, a late fee is imposed. Additionally, a liquidated damage of RMB 50 million (approximately $7,869,678) will be paid by the party that defaults on the agreement.

In connection with the Management Agreement, the Company entered in to a loan agreement (the "Loan Agreement"), pursuant to which the Company agreed to loan NIT RMB 50 million (approximately $7,869,678) to build training facilities and NIT will repay the RMB 50 million (approximately $7,869,678) in ten years from the date NIT receives the principal. The loan has an annual interest rate of 20% and the interest will be waived by the Company if NIT makes all payments under the Management Agreement in a timely manner. Currently, we receive 20 % annual interest income due each quarter; therefore, the management fee is waived. The loan is secured by the assets of certain guarantors.

On March 14, 2011 the Company entered into a Share Transfer Agreement with the shareholder of Harbin Tianlang Culture and Education School ("Tianlang"), a tutoring school with 5,000 current students, based in Harbin, PRC. Pursuant to the Share Transfer Agreement, the Company purchased 60% of the equity interests of Tianlang for RMB 35 million (approximately $5.3 million). The shareholder and the Company also provided RMB 2 million (approximately $0.3 million) and RMB 3 million (approximately $0.5 million) as working capital for Tianlang, respectively. Tianlang had established a new board of directors with five directors, of which three directors were appointed by the Company and two directors were appointed by the shareholder.

The acquisition of Tianlang was completed in April 2011. We are currently co-managing Tianlang with the previous majority owner. The approximately $5.3 million paid by the Company is included in intangible assets on the accompanying March 31, 2012 balance sheet.

On May 31, 2011, the Company entered into Share Transfer Agreements (the “Agreements”) with the shareholders (the “Shareholders”) of Changchun City Chaoyang District Nuoya Foreign Languages School (“Changchun Nuoya”) and Harbin City Nangang District Nuoya Foreign Languages School (“Harbin Nuoya”), two foreign language schools that have a total of 1,000 then enrolled students, based in the PRC.

Pursuant to the Agreements, the Company purchased 100% of the two schools for RMB 8 million each (approximately $1.23 million), and all consideration has been paid accordingly. The Shareholders’ obligations under the Agreements are guaranteed by a guarantor who will be jointly and severally liable in the event of a breach by the Shareholders.

The acquisition of Changchun Nuoya and Harbin Nuoya was completed by the end of May 2011 and their financial statements have been consolidated with the Company’s financial statements since May 2011. The acquired net assets were identifiable intangible assets such as domain name, cost of materials, student list, course materials and teacher lists, and the economic useful life for the domain name was amortized over 10 years, others were amortized over 3 years. The RMB 16 million (approximately $2.5 million) paid by the Company is included in intangible assets in the accompanying March 31, 2012 balance sheet.

2 Basis of Preparation of Financial Statements

The accompanying condensed consolidated financial statements differ from the financial statements used for statutory purposes in the PRC in that they have been prepared in compliance with U.S. generally accepted accounting principles (“GAAP”) and reflect certain adjustments, recorded on the entities’ books, which are appropriate to present the financial position, results of operations and cash flows in accordance with GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, and depreciation and valuation of property and equipment and intangible assets.

These consolidated financial statements for interim periods are unaudited. In the opinion of management, all adjustments, consisting of normal, recurring adjustments and disclosures necessary for a fair presentation of these interim statements have been included. The results reported in these consolidated interim financial statements are not necessarily indicative of the results that may be reported for the entire year. The accompanying consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all information and footnotes necessary for a complete presentation of financial statements in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed on April 16, 2012.

3. Summary of Significant Accounting Policies

Principles of Consolidation - The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly subsidiaries (ZHLD, ZHTC, HYPX, Changchun Nuoya, and Harbin Nuoya) and its majority owned subsidiaries (BHYHZ, ZHLDBJ, and Tianlang). All inter-company transactions and balances were eliminated. The portion of the income applicable to noncontrolling interests in subsidiary undertakings is reflected in the consolidated statements of operations.

Use of estimates - The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net sales and expenses during the reported periods.

Significant estimates include values and lives assigned to acquire intangible assets, the useful lives and impairment of property and equipment, collectability of accounts receivable, reserves for allowances and stock option valuation. Actual results may differ from these estimates.

Cash and cash equivalents - The Company considers all highly liquid debt instruments purchased with a maturity period of three months or less to be cash or cash equivalents. The carrying amounts reported in the accompanying unaudited condensed consolidated balance sheets for cash and cash equivalents approximate their fair value. All of the Company’s cash that is held in bank accounts in the PRC is not protected by FDIC insurance or any other similar insurance in the PRC. The cash that the Company maintains in US banks is insured up to $250,000 at each bank as of March 31, 2012 and December 31, 2011. The Company’s cash at their US banks is in excess of statutorily insured limits at nil, respectively, as of March 31, 2012 and December 31, 2011.

Property and equipment - Property and equipment is stated at the historical cost, less accumulated depreciation. Depreciation on property, plant and equipment is provided using the straight-line method over the estimated useful lives of the assets after taking into account a 5% residual value for both financial and income tax reporting purposes as follows:

Buildings	20 years
Communication Equipment	10 years
Motor vehicles	5 years
Furniture, Fixtures, and Equipment	5 years
Leasehold improvement	over unexpired lease terms

Expenditures for renewals and betterments are capitalized while repairs and maintenance costs are normally charged to the statement of operations in the year in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset.

Upon sale or disposal of an asset, the historical cost and related accumulated depreciation or amortization of such asset are removed from their respective accounts and any gain or loss is recorded in the Statements of Operations.

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors.

Intangibles - Intangibles consist of franchise rights on educational products, software, magazine rights and contest operation rights. Most intangible assets are amortized over the lives of the rights agreements, or their respective operational useful lives.

The Company evaluates the carrying value of intangible assets during the fourth quarter of each year and between annual evaluations if events occur, or circumstances change, that would more likely than not reduce the fair value of the intangible asset below its carrying amount. There were no impairments recorded as of March 31, 2012 and 2011.

Through April to May 2011, the Company purchased 60% of Tianlang for RMB 35 million (approximately $5.3 million) and 100% ownership of Changchun Nuoya and Harbin Nuoya. These three schools net assets were identifiable intangible assets such as domain name, cost of materials, student list, course materials and teacher lists. The economic useful life for domain name is amortized over 10 years, the others are amortized over 3 years.

Long-Lived Assets - The Company reviews its Long-Lived assets for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets under certain circumstances are reported at the lower of carrying amount or fair value. Assets to be disposed of and assets not expected to provide any future service potential to the Company are recorded at the lower of carrying amount or fair value less cost to sell. To the extent carrying values exceed fair values; an impairment loss is recognized in operating results.

Foreign Currency - The Company's principal country of operations is the PRC. The financial position and results of operations of the Company are recorded in Renminbi ("RMB") as the functional currency. The results of operations denominated in foreign currency are translated at the average rate of exchange during the respective reporting period.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange at that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. All translation adjustments resulting from the translation of the financial statements into the reporting currency ("U.S. Dollars") are recorded in accumulated other comprehensive income, a separate component within shareholders' equity. The accompanying consolidated financial statements are presented in United States dollars ("US$"). The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are translated into United States dollars from RMB at year-end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The resulting translation adjustments are recorded as a component of shareholders' equity included in comprehensive income. Gains and losses from foreign currency transactions are included in net income. There were no gains and losses from foreign currency transactions during the quarters ended March 31, 2012 and 2011.

	March 31,	
	2012	2011
RMB: US$ exchange rate	6.3122	6.5501

	Three Months ended March 31,	
	2012	2011
Average RMB: US$ exchange rate	6.2976	6.5535

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US$ at the rates used in translation.

Noncontrolling Interest - Noncontrolling interests in the Company's subsidiaries are recorded in accordance with the provisions of FASB Accounting Standards Codification 810 Consolidation ("ASC 810") and are reported as a component of equity, separate from the parent's equity. Purchase or sale of equity interests that do not result in a change of control are accounted for as equity transactions. Results of operations attributable to the noncontrolling interest are included in our consolidated results of operations and, upon loss of control, the interest sold, as well as interest retained, if any, will be reported at fair value with any gain or loss recognized in earnings.

Revenue recognition - Revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the service has been rendered; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company believes that these criteria are satisfied when customers download prepaid study materials.

Prepaid debit cards allow the Company's subscribers to purchase a predetermined monetary amount of download materials posted on its website. The Company tracks usage of the debit card and records revenue when the debit card is used.

At the time that the prepaid debit card is purchased, the receipt of cash is recorded as deferred revenue. Revenues are recognized in the month when the card is used. Unused value relating to debit cards is recognized as revenues when the prepaid debit card expires.

Tuition from courses is recognized ratably over the period that fees are earned, typically the life of the course. The Company offer credits to students if they should withdraw, or be unable to complete their required courses. Historically the issuances of credits have not been high with regards to tuition fees. The Company offers cash refunds on a limited basis based on individual circumstances.

The Company engages an advertisement agency to manage its on-line advertisement revenue. Per the contract with this agency, upon posting of an on-line advertisement on the Company's website, the Company is entitled to share with the agency 50% of the amount charged to the on-line advertiser. The Company recognizes advertising revenue over the term of the advertisement. The agency is responsible for collection of all ad revenue from advertisers. The agency is required to make their remittance for on-line advertising six months after on-line ads are posted on their website.

Deferred revenue reflects the unearned portion of debit cards sold and tuition. Tuition is recognized as revenue ratably over the periods in which it is earned, generally the term of the program or as the debit card is used.

Accounts Receivables - Included in accounts receivables are receivables from advertising on the Company's websites and from the sale of prepaid debit cards to resellers. The sales of prepaid debit cards to resellers are recorded as deferred revenue until such time as the cards are used to download material from the Company's website. Total accounts receivables were $106,936 and nil as of March 31, 2012 and December 31, 2011, respectively.

The Company reviews its accounts receivables on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. If accounts receivable are to be provided for, or written off, they would be recognized in the consolidated statement of operations within operating expenses. As of March 31, 2012 and December 31, 2011, the Company has not established an allowance for doubtful accounts, in addition the Company has not provided for, or written off, accounts receivable during the three months ended March 31, 2012 and 2011.

Deferred Revenue - Deferred revenue reflects the unearned portion of debit cards sold and tuition payments received. Deferred revenue as of March 31, 2012 and December 31, 2011 was $950,216 and $2,277,620, respectively.

Advertising - The Company expenses advertising costs at the time they are published in the newspaper and for all other advertising the first time the respective advertising takes place. These costs are included in selling, general and administrative expenses. The total advertising expenses incurred for the three months ended March 31, 2012 and 2011 were $15,879 and $175,138, respectively.

Taxation - Taxation on profits earned in the PRC are calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC after taking into effect the benefits from any special tax credits or "tax holidays" allowed in the PRC.

The Company does not accrue United States income tax on unremitted earnings from foreign operations as it is the Company's intention to invest these earnings in foreign operations for the foreseeable future. All Company revenues are generated in the PRC. The Company's US operations provide corporate and administrative functions for the entire Company. The Company's tax provisions for the three months ended March 31, 2012 and 2011 are related to the Company's PRC operations.

If the Company should have an uncertainty in accounting for income taxes, the Company evaluates a tax position in a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of the position. The second step is to measure the tax position that meets the more-likely-than-not threshold to determine the amount of provision or benefit to be recognized in the financial statements. A tax position is measured at the largest amount of provision or benefit where there is a greater than 50% likelihood of being realized upon ultimate settlement.

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent reporting period in which the threshold is no longer met.

Based on all known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax provisions or benefits as of March 31, 2012 and December 31, 2011, is not material to its results of operations, financial condition or cash flows. The Company also believes that the total amount of unrecognized tax provisions or benefits as of March 31, 2012 and December 31, 2011, if recognized, would not have a material effect on its effective tax rate. The Company further believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the unrecognized tax provisions or benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the Company's results of operations, financial condition or cash flows.

Enterprise income tax

In the three months ended March 31, 2012 and the fiscal year ended December 31, 2011, ZHLD continued being qualified as a technology and software entity, and receives a 15% statutory PRC enterprise income tax rate. The Company's subsidiaries, ZHTC, TL, Harbin Nuoya and Changchun Nuoya are currently exempt from PRC taxation, as it operates a business enterprise engaged in educational opportunities. The Company's other subsidiaries; BHYHZ, ZHLDBJ and HYPX are taxed at the PRC statutory rate (25%).

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets, including tax loss and credit carry forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has deferred tax assets of $432,768 as of March 31, 2012 and $316,737 as of December 31, 2011. In addition, the Company has not recorded a deferred tax expense for the quarter ended March 31, 2012 and 2011.

Value added tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (VAT) promulgated by the State Council came into effect on January 1, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the PRC Concerning Value Added Tax, VAT is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

VAT payable in the PRC is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided, but excluding, in respect of both goods and services, any amount paid in respect of VAT included in the price or charges, less any deductible VAT already paid by the taxpayer on purchases of goods and services in the same financial year. The Company records all revenues net of VAT taxes.

Related party - A related party is a company, or individual, in which a director or an officer has beneficial interests in and in which the Company has significant influence.

As of March 31, 2012 and December 31, 2011, the Company owed a stockholder $132,511 and $131,650, respectively, which is, unsecured, interest-free and repayable on demand.

Stock based compensation - The Company records compensation expense associated with stock-based awards and other forms of equity compensation. Such compensation would include the recording of cost resulting from all stock-based payment transactions including shares issued under its stock option plans. The Company records expense over the vesting period in connection with stock options granted. The compensation expense for stock-based awards includes an estimate for forfeitures and is recognized over the expected term of the award on a straight line basis.

Fair value of financial instruments - The Company has adopted newly issued generally accepted accounting principles with regards to fair value measurement for assets and liabilities that establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of these recently issued principles did not have an impact on the Company’s financial position or operating results, but did expand certain disclosures.

Current fair value of financial instruments defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, current standards require the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1:	Observable inputs such as quoted market prices in active markets for identical assets or liabilities
Level 2:	Observable market-based inputs or unobservable inputs that are corroborated by market data
Level 3:	Unobservable inputs for which there is little or no market data, which require the use of the reporting entity’s own assumptions.

The Company did not have any Level 2 or Level 3 assets or liabilities as of March 31, 2012 and December 31, 2011.

Cash and cash equivalents of approximately $72,808,247 and $73,597,159 as of March 31, 2012 and December 31, 2011, respectively, include only cash on hand and in banks that are considered to be highly liquid and easily tradable as of March 31, 2012.

In addition to fair value requirements noted above, recent standards expands opportunities for the use of fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value options for any of its qualifying financial instruments.

Reclassifications - Certain reclassifications have been made to the prior periods' financial statements to conform to the current period presentation. These reclassifications had no effect on previously reported results of operations or the sum of retained earnings and statutory reserve.

Recent accounting pronouncements –

Recent accounting pronouncements applicable to the Company are summarized below.

- In July 2011, FASB issued ASU 2011-06 *Other Expenses (Topic 720) – Fees Paid to the Federal Government by Health Insurers*. The objective of this Update is to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The Acts impose an annual fee on health insurers for each calendar year beginning on or after January 1, 2014. For reporting entities that are subject to the fee imposed on health insurers mandated by the Acts, the amendments in this Update specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The amendments in this Update are effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. Management is currently evaluating the potential impact of ASU 2011-06 on the Company's consolidated financial statements.

- In December 2011, the FASB issued new accounting guidance that will require disclosure of information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as disclosure of collateral received and posted in connection with these instruments. This new guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. The Company expects that the adoption of this new guidance will not have a material impact on its financial position, results of operations or cash flows.

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to the consolidated statements.

4. Concentrations of Business and Credit Risk

The majority of the Company's bank accounts in banks located in the PRC are not covered by any type of protection similar to that provided by the FDIC on funds held in U.S banks.

The Company is operating in the PRC, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between the U.S. dollar and the RMB.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and trade receivables, the balances of which are stated on the balance sheet. The Company places its cash in high credit quality financial institutions; however, such funds are not insured in the PRC. As of March 31, 2012 and December 31, 2011, the Company maintains cash in the US, in a financial institution insured by the FDIC that has nil, respectively, in funds in excess of FDIC insured amounts.

For the quarters ended March 31, 2012 and 2011, three distribution agent in each of Heilongjing, Jilin and Liaoning Provinces accounted for 31.2%, 7.5%, and 8.2%, respectively of the total online education revenue for the quarter ended March 31, 2012, 22.9%, 23.3%, and 25.0%, respectively of the total online education revenue for the quarter ended March 31, 2011.

Payments of dividends may be subject to some restrictions.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	March 31,2012	December 31,2011
Cash on Hand -China	$ 109,301	$ 139,078
Bank Deposits-China	72,599,054	73,120,006
Bank Deposits-US	99,892	338,075
	$ 72,808,247	$ 73,597,159

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6. Prepaid Expenses

Prepaid Expenses consist of the following:

	March 31, 2012	December 31, 2011
Prepaid rent	$ 261,787	$ 387,618
Prepaid teachers and online material	287,896	302,340
Prepaid services and professional fees	93,821	286,281
Prepaid advertising	51,271	53,036
Other prepaid expenses	225,946	276,221
	$ 920,721	$ 1,305,496

7. Note receivable

On March 4, 2011, the Company entered into a management agreement (the “Management Agreement”) with Nanchang Institute of Technology (“NIT”), a vocational training institution based in Nanchang, PRC. Pursuant to the Agreement, the Company manages the daily operations of NIT for ten years for an annual management fee of RMB 10 million (approximately $1,549,331). The management fee is payable on a quarterly basis and in the event of late payment, a late fee is imposed. Additionally, a liquidated damage of RMB 50 million (approximately $7,869,678) will be paid by the party that defaults on the agreement.

In connection with the Management Agreement, the Company entered in to a loan agreement (the “Loan Agreement”), pursuant to which the Company loan NIT RMB 50 million (approximately $7,869,678) to build training facilities and NIT will repay the RMB 50 million (approximately $7,869,678) in ten years from the date NIT receives the principal. The loan has an annual interest rate of 20% and the interests will be waived by the Company if NIT makes all payments under the Management Agreement in a timely manner. In the event it prepays the principal and interests that are not due, NIT is subject to a prepayment penalty in the amount of 25% of the loan principal. The loan is secured by the assets of certain guarantors.

The Company loaned RMB 50 million (approximately $7,869,678) to NIT on December 15, 2010. The principal on the loan is due in ten years. NIT will pay the Company RMB 10 million (approximately $1,549,331) annually under the Management Agreement. The full amount of the loan is due in ten years-from the date NIT received the principal at the termination of the Agreement. The loan bears interest at 20% per annum. However, no interest will be charged if the Company receives the annual management fee.

As of March 31, 2012 and December 31, 2011, the balance of note receivable was $7,921, 169 and $7,869,678, respectively.

8. Property and Equipment

Property and Equipment consist of the following:

	March 31,2012	December 31,2011
Buildings	$ 1,408,070	$ 1,398,917
Transportation vehicles	275,194	273,405
Communication equipment	13,199,024	13,113,226
Furniture and fixtures	3,326,187	3,694,726
Leasehold improvement	2,145,861	2,131,910
	20,354,336	20,612,184
Less: Accumulated Depreciation	(7,106,911)	(6,409,048)
Property and Equipment, net	$ 13,247,425	$ 14,203,136

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For the three months ended March 31, 2012, and 2011, depreciation expense totaled $1,035,883 and $479,426, respectively. For the three months ended March 31, 2012 and 2011, losses on disposal of fixed assets were $15,818 and $141,912, respectively.

9. Intangibles and Capitalized Software

Intangibles of the Company consist of franchise rights on educational products, software, magazine rights, contest operation rights, domain name, course materials, student list, course materials and teacher lists.

Franchise Rights

The franchise rights owned by the Company consist of the following:

- The ACCP training course is an authority for training software engineers under authorized training procedures with authorized textbooks;
- The BENET training course is an authority for training internet engineers under authorized training procedures with authorized textbooks.

Capitalized Software

The Capitalized software of the Company consists of all the Company’s software, among which two main ones are the following:

- The Usage rights for job seekers is software to help university students to search jobs, post their resumes, and communicate with potential employers;
- The Usage right for learners is software to help elementary and secondary students to do assignments, test papers, and get instructions from teachers.

Intangible assets on acquisitions

In March 2011, the Company acquired a 60% controlling interest in Tianlang for a purchase price of RMB 35 million (approximately $5.3 million). The school had insignificant tangible assets or liabilities at the acquisition date. The entire estimated fair value of approximately $8.9 million has been allocated to amortizable intangible assets.

In May 2011, the Company acquired a 100% ownership in Changchun Nuoya and Harbin Nuoya. The aggregate purchase price for the two schools was RMB 16 million (approximately $2.5 million). The schools had insignificant tangible assets or liabilities at the acquisition date. The entire estimated fair value of approximately $2.5 million has been allocated to amortizable intangible assets.

Intangibles and capitalized software consist of the following:

	March 31,2012	December 31,2011
ACCP training course	$ 798,453	$ 793,263
BENET training course	55,924	55,560
Usage rights- Job Seekers	475,270	472,181
Usage rights- Learners	316,847	314,787
Others	2,467,670	2,458,199
Domain names	9,433,398	9,412,135
Course materials	533,264	497,751
Student list	788,966	786,968
Teacher list	1,040,554	1,038,797
	15,910,346	15,829,641
Less: accumulated amortization	(3,929,414)	(3,409,021)
Intangible and Capitalized Software, net	$ 11,980,932	$ 12,420,620

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For the three months ended March 31, 2012 and 2011, amortization expenses totaled $499,245 and $45,287 respectively.

Amortization of intangibles and capitalized software over the next five years is as follows:

Period/Year Ending December 31,	
2012	$1,462,048
2013	1,937,115
2014	1,388,501
2015	1,132,978
2016	1,040,079
	$6,960,721

10. Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of the following:

	March 31,2012	December 31,2011
Accounts payable	$ 3,961	$ 3,935
Accrued payroll	226,551	187,523
Accrued expenses	99,011	174,912
Payable for leasehold improvements	-	912,882
Other payables	74,623	151,247
	$ 404,146	$ 1,430,499

11. Deferred revenue

Deferred revenues include subscriber prepayments and education fee prepayments. Subscriber prepayments represent deferred revenue for the purchase of debit cards used to pay for the online downloading of education materials. The Company recognizes revenue when the card is used to download material. During the period between the purchase and use of debit cards, the unused portion of the debit card is treated as deferred revenue to the Company. Education fee prepayments represent payments for tuition for the Company’s training schools, which are amortized over the term of the course. As of March 31, 2012, and December 31, 2011, the Company had deferred revenue of $950,216 and $2,277,620, respectively.

12. Stockholders’ Equity

The Company had no significant equity transactions during the quarter ended March 31, 2012.

The Company recorded the following equity transactions during the year ended December 31, 2011.

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On May 16, 2011, our director, Yizhao Zhang was granted 6,667 shares of common stock valued at the market price on the date of issuance, at fair value of $24,600.

On January 19, 2011, the Company issued 155,113 shares of common stock valued at market closed price at $7.17 to the employees pursuant to the Company's 2009 Incentive Stock Plan, at fair value of $1,112,158.

On September 26, 2011, we affected a one-for-three reverse stock split of our issued and outstanding common stock. As a result, the number of our issued and outstanding common stock was reduced from 31,747,249 shares to 10,582,503 shares. All common share data in the financial statement has been retroactively adjusted to reflect the effects of this reverse stock split.

13. Warrants and Options

All the number of shares below is reflected after a one-for-three reverse stock split performed in 2011.

Warrants

For three months ended March 31, 2012 and the year ended December 31, 2011, the Company did not grant any warrants.

As of March 31, 2012, all the Company's previously issued warrants have been exercised and the Company did not have any warrants outstanding.

Stock Options:

During the three months ended March 31, 2012, the Company did not grant any stock options. The total stock based compensation was $2,642 related to the vesting of previously granted options.

During the year ended December 31, 2011, the Company established the 2011 Incentive Stock Plan, with 333,334 authorized shares to be issued or granted.

On July 1, 2011, Mr. Yizhao Zhang was granted another option to purchase 20,000 shares of common stock of the Company at the exercise price of $2.67 per share pursuant to the 2011 Incentive Stock Plan. This option vests on the date of the option and may be exercised from date of grant until May 8, 2014, provided Mr. Zhang is still a director of or otherwise engaged by the Company at the date of exercising and the option has an exercise price equal to the market value of the Company's commons shares on the date of grant. The total fair value of this option was $37,664.

On July 1, 2011, one of our employees, Ms. Mingming Bai was granted another option to purchase 10,000 shares of Common Stock of the Company at the exercise price of $2.67 per share pursuant to the 2011 Incentive Stock Plan. This option vests on the date of the option and may be exercised from date of grant until May 8, 2014, provided Ms. Bai is still an employee of or otherwise engaged by the Company at the date of exercising and the option has an exercise price equal to the market value of the Company's commons shares on the date of grant. The total fair value of this option was $18,832.

On July 1, 2011, a number of our other employees were granted options to purchase an aggregate of 22,667 shares of our common stock at the exercise price of $2.67 per share pursuant to the 2011 Incentive Stock Plan. These options are valid until May 8, 2014 and become exercisable during the term of Optionee's employment in three equal annual installments and the option has an exercise price equal to the market value of the Company's commons shares on the date of grant. The total fair value of these options was $28,196.

The fair value of options pursuant to the 2011 Incentive Stock Plan were estimated on the date of grant using the Blacks-Scholes valuation model and the following assumptions: risk free interest rate of 0.1% to 0.85%, expected life of 1 year to 2.83 years, dividend rate of 0.0%, and expected volatility of 69% to 124%.

During the year ended December 31, 2011, the options to purchase a total of 10,000 shares of common stock issued to our ex-Chief Financial Officer, Zibing Pan, were forfeited.

During the three months ended March 31, 2011, the Company did not grant any stock options and the total stock based compensation for this period was $11,199.

During the year ended December 31, 2011, the total stock based compensation was $1,209,803.

The Company measures the intrinsic value of options at the end of each reporting period until options are exercised, cancelled or expire unexercised. As of March 31, 2012 there are 184,447 options with a weighted average exercise price of $7.45 and a weighted average remaining life of 0.76 years, which remain outstanding and continue to be remeasured at the intrinsic value over their remaining vesting period ranging from about 3 months to 2.10 years. Compensation expense in any given period is calculated as the difference between total earned compensation at the end of the period, less total earned compensation at the beginning of the period. Compensation earned is calculated on a straight line basis over the requisite service period for any given option award. As of March 31, 2012, a total of approximately $4,076 in unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted average period of 1.10 years. The intrinsic value for exercisable options as of March 31, 2012 is $0 due to the market price is lower than exercise price.

Stock option activity for the quarter ended March 31, 2012 is summarized as follows:

	Shares underlying options	**Weighted average Exercise Price**
Outstanding as of January 1, 2011	141,780	$ 9.99
Granted	52,667	2.67
Exercised	-	-
Expired / cancelled / forfeited	(10,000)	16.77
Outstanding as of December 31, 2011	184,447	$ 7.45
Granted	-	-
Exercised	-	-
Expired / cancelled / forfeited	-	-
Outstanding as of March 31, 2012	184,447	$ 7.45
Exercisable and vested as of March 31, 2012	169,332	$ 7.88

The following table summarizes the Company’s stock options outstanding at March 31, 2012.

Exercise Price	Outstanding March 31, 2012	Weighted Average Remaining	Number exercisable

		Life in Years	
$ 9.57	100,000	0.22	100,000
$ 8.70	31,780	0.22	31,780
$ 2.67	52,667	2.10	37,552
	184,447		169,332

Dividend:

In the quarter ended March 31, 2012, Tianlang paid $317,581 cash dividend to Tianlang's shareholders. As one of Tianlang's shareholders, the Company received $190,549 cash dividend from Tianlang.

14. Earnings Per Share

Per GAAP the Company reconciles the numerator and denominator of the basic and diluted earnings per share (EPS) computations.

For the three months ended March 31, 2012 and 2011, dilutive shares include shares attributable to exercisable options only if such inclusion would be dilutive.

Earnings per share were affected by the one-for-three reverse stock split of our issued and outstanding common stock, effective September 26, 2011. As a result, the number of our issued and outstanding common stock was reduced from 31,747,249 shares to 10,582,503 shares.

The following reconciles the components of the EPS computation:

	Three Months Ended March 31, 2012		
	Income (Numerator)	**Shares (Denominator)**	**Per-share Amount**
Net loss- attributable to CEAI and subsidiaries	$ 114,159	10,582,503	$ 0.01
Effect of Dilutive Securities	-	-	-
Net Loss per common stock-basic and diluted	$ 114,159	10,582,503	$ 0.01

	Three Months Ended March 31, 2011		
	Income (Numerator)	**Shares (Denominator)**	**Per-share Amount**
Net loss- attributable to CEAI and subsidiaries	$ 174,530	10,325,603	$ 0.02
Effect of Dilutive Securities	-	-	-
Net Loss per common stock-basic and diluted	$ 174,530	10,325,603	$ 0.02

During the three months ended March 31, 2012 and 2011 options to purchase 184,447 and 141,780 shares of common stock with exercise prices greater than the average fair market value of the Company’s stock were not included in the calculation because the effect is anti-dilutive.

15. Commitments and Contingencies

We are presently involved in two putative class action lawsuits filed in the U.S. District Court for the Central District of California. The first action, Apicella v. China Education Alliance, Inc., et al., No. 10-cv-09239 (CAS)(JCx), was filed on December 2, 2010; the second action, Clemens v. China Education Alliance, Inc., et al., No. 10-cv-09987 (JFW) (AGRx), was filed on December 28, 2010. On March 2, 2011, both actions were consolidated in In re China Education Alliance, Inc. Securities Litigation, No. 10-cv-09239 (CAS) (JCx) (C.D. Cal.). The Consolidated Amended Complaint alleged that the Company, Xiqun Yu, Zibing Pan, Susan Liu, Chunqing Wang, James Hsu, Liansheng Zhang, and Yizhao Zhang are liable under Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 for allegedly false and misleading statements and omissions in our public filings between 2008 and 2010 and in an investor conference call in December 2010. The Consolidated Amended Complaint also asserted claims under Section 20(a) of the Securities Exchange Act of 1934 against the individual defendants as persons who allegedly controlled the Company during the time the allegedly false and misleading statements and omissions were made. The Court denied the company's motion to dismiss the Consolidated Amended Complaint on October 11, 2011, and granted (with leave to replead) James Hsu's motion to dismiss the Consolidated Amended Complaint on November 14, 2011. On December 5, 2011, the plaintiffs in the class action filed a Consolidated Second Amended Complaint alleging claims under Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 against the Company, Xiqun Yu, Zibing Pan, Susan Liu, and Chunqing Wang, and alleging claims under Section 20(a) of the Securities Exchange Act of 1934 against Xiqun Yu, Zibing Pan, Susan Liu, Chunqing Wang, James Hsu, Liansheng Zhang, and Yizhao Zhang. The Company answered the Consolidated Second Amended Complaint on January 5, 2012. On April 6, 2012, the court dismissed the claim against Liansheng Zhang but denied motions to dismiss the claims against James Hsu and Yizhao Zhang, the only other defendants served so far.

In addition, on October 28, 2011, a derivative lawsuit was filed on behalf of the Company in the U.S. District Court for the Central District of California against Xiqun Yu, Zibing Pan, Susan Liu, Chunqing Wang, James Hsu, Liansheng Zhang, and Yizhao Zhang for alleged breaches of fiduciary duties based on facts similar to those alleged in the class action. The derivative lawsuit is Padnos v. Yu, et al., No. 11-cv-08973 (CAS) (JCx) (C.D. Cal.). The parties have reached an agreement in principle to settle the derivative action, subject to court approval.

The Company determined that the above litigations may result in loss contingencies because settlements of these litigations are reasonably possible, although the possible loss or range of these losses is not reasonably estimable. While the outcome of the current claims cannot be predicted with certainty, management reviews the possible outcome at least quarterly and records a loss contingency accrual based upon this review. The Company was unable to estimate the possible loss or range of losses as of March 31, 2012 and, therefore, has not recorded an accrued loss contingency under ASC 450 in connection with the contingent liability related to this litigation. Based upon current available information, the Company believes that the outcome of this litigation will not have a material adverse impact on its consolidated financial position and results of operations.

Employee Benefits

The full time employees of subsidiaries based in the PRC are entitled to employee benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a Chinese government mandated multi-employer defined contribution plan. The Company is required to accrue for those benefits based on certain percentages of the employees' salaries and make contributions to the plans out of the amounts accrued for medical and pension benefits. The total provision and contributions made for such employee benefits for the three months ended March 31, 2012 and 2011 were $17,522 and $8,573, respectively. The Chinese government is responsible for the medical benefits and the pension liability to be paid to these employees.

Minimum Lease Commitments

The Company has nine office leases and training center leases which expire at various date from January 2013 through September 2017. The Company recorded an aggregate of $311,706 and $85,850 as rent expenses for the three months ended March 31, 2012 and 2011, respectively. Rent expenses for the 5 years after March 31, 2012 are as follows:

Period/Year ending December 31,	
2012	$598,803
2013	643,859
2014	251,137
2015	62,774
2016	15,842
	$1,572,415

16. Operating Risk

(a) Country risk

Currently, the Company’s revenue is mainly derived from sale of educational products and services in the PRC. The Company hopes to expand its operations in the PRC, however, there are no assurances that the Company will be able to achieve such an expansion successfully. Therefore, a downturn or stagnation in the economic environment of the PRC could have a material adverse effect on the Company’s financial condition.

(b) Products risk

The Company competes with larger companies, who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel. There can be no assurance that the Company will remain competitive with larger competitors.

(c) Exchange risk

The Company cannot guarantee that the current exchange rate will remain steady, therefore there is a possibility that the Company could post the same amount of profit for two comparable periods and because of a fluctuating exchange rate actually post higher or lower profit depending on exchange rate of Chinese Renminbi (RMB) converted to U.S. dollars on that date. The exchange rate could fluctuate depending on changes in the political and economic environments without notice.

(d) Political risk

Currently, the PRC is in a period of growth and is openly promoting business development in order to bring more business into the PRC. Additionally, the PRC allows a Chinese corporation to be owned by a United States corporation. If the laws or regulations are changed by the PRC government, the Company’s ability to operate in the PRC could be affected.

(e) Key personnel risk

The Company’s future success depends on the continued services of executive management in PRC. The loss of any of their services would be detrimental to the Company and could have an adverse effect on business development. The Company does not currently maintain key-man insurance on their lives. Future success is also dependent on the ability to identify, hire, train and retain other qualified managerial and other employees. Competition for these individuals is intense and increasing.

(f) Non-compliance with financing requirements

The Company might need to obtain future financing that require timely filing of registration statements, and have declared effective those registration statements, to register the shares being offered by the selling stockholders in future financing. The Company might be subject to liquidated damages and other penalties if they continue to obtain future financing requiring registration statements, and not having those registration statements filed and declared effective in a prompt manner.

17. Related Party Transactions

As of March 31, 2012 and December 31, 2011, the Company owed a stockholder $132,511 and $131,650, respectively, which is, unsecured, interest-free and repayable on demand.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of the results of our operations and financial condition should be read in conjunction with our consolidated financial statements and the related notes thereto, which appear elsewhere in this Annual Report.

Except for the historical information contained herein, the following discussion, as well as other information in this report, contain “forward-looking statements,” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the “safe harbor” created by those sections. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and are likely to, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those discussed from time to time in this report, as well as and any risks described in the “risk factors” section of our filings we make with the SEC. In addition, such statements could be affected by risks and uncertainties related to the ability to conduct business in the People’s Republic of China, demand, including demand for our products resulting from change in the educational curriculum or in educational policies, our ability to raise any financing which we may require for our operations, competition, government regulations and requirements, pricing and development difficulties, our ability to make acquisitions and successfully integrate those acquisitions with our business, as well as general industry and market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, should not be relied upon as representing our views as of any subsequent date and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this report.

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. On an on-going basis, we evaluate these estimates, including those related to useful lives of real estate assets, cost reimbursement income, bad debts, impairment, net lease intangibles, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from those estimates.

Overview

Our principal business is the distribution of educational resources through the Internet. Our website, www.edu-chn.com, is a comprehensive education network platform which is based on network video technology and large data sources of education resources. We have a database comprising such resources as test papers for secondary education courses as well as video on demand. Our database includes more than 400,000 exams, test papers and courseware for secondary and elementary schools.

We also provide on-site teaching services and have 20 training facilities in Heilongjiang, Jilin, Liaoning, and Beijing, which can accommodate approximately 10,000 students at the same time. These classes complement our on-line education services. The courses cover primarily the compulsory education curriculum of junior, middle and high school. We charge tuition fees for these classes.

We generate revenue through our website by selling prepaid debit cards to our subscribers. These debit cards permit the subscriber to download materials from our website over a specified period, usually one year. We recognize revenue from the debit cards when the students use the debit cards to purchase our products. To the extent that the debit cards expire unused, we recognize the remaining balance of the debit card at that time. We also recognize revenue from our other online education business including the sale of advertising on our website. We recognize revenue from our training center’s classes ratably over the term of the course, and we recognize revenue from face-to-face tutorials with students who attend our training center and face-to-face information technology training courses.

The laws of the People’s Republic of China provide the government broad power to fix and adjust prices. We need to obtain government approval in setting our prices for classroom coursework and tutorials, which affects our revenue in our training center business. Although the sale of educational material over the Internet is not presently subject to price controls, we cannot give you any assurance that they will not be subject to controls in the future. To the extent that we are subject to price control, our revenue, gross profit, gross margin and net income will be affected since the revenue we derive from our services will be limited and we may face no limitation on our costs. Further, if price controls affect both our revenue and our costs, our ability to be profitable and the extent of our profitability will be effectively subject to determination by the applicable PRC regulatory authorities.

Because students who purchase our on-line programs purchase debit cards for the programs that they use and students who enroll in our training classes pay their tuition before starting classes, we do not have significant accounts receivable. Total accounts receivable were $106,936 and nil as of March 31, 2012 and December 31, 2011, respectively.

Our prepaid expenses were $920,721, accounting for 1.24% of current assets as of March 31, 2012. Prepaid expenses are primarily comprised of advance payments made for services to teachers, online materials and video, prepaid advertising and prepaid rent. As of March 31, 2012, prepayments to teachers and for online materials totaled $287,896, prepayment of rent expense totaled $261,787, prepayments for advertising totaled $51,271, prepaid services and professional fees totaled $93,821, and other prepaid expenses were $225,946. We amortize the prepayments to teachers over three months, which is the estimated life of the testing materials. The prepaid rent related to our Beijing office and dormitory rental for our training center and the prepayment to teachers decreases as the materials are delivered and the prepaid rent decreases ratably during the terms of the leases.

As a result of both the manner in which we recognize revenue and the manner that we expense the cost of our materials, there is a difference between our cash flow and our revenue and cost of revenue.

In our on-line education business segment, the principal component of cost of revenue is the cost of obtaining new materials to offer students as we increase the available materials as well as depreciation related to computer equipment and software and direct labor cost. Our on-line education business generates a gross margin of 14.4% for the quarter ended March 31, 2012. The gross margin is affected by the payments as we have to make to the teachers for the teaching materials. In our training center business, the principal components of cost of revenue are costs of the faculty and the amortization of intangible assets. The tuition that we charge our students at our training center is subject to government approval. As a result, we may not be able to pass on to our students any increases in costs we incur, including increased costs of running our faculty. Our gross margin on the training centers vary accordingly to the size of our classes.

Our on-line products and our training services are dependent upon the government's education policies. Any significant changes in curriculum or testing methods could render all or a significant portion of our library of test papers and our training centers obsolete and we may have to devote substantial resources in adapting to the changes.

We have recently added a platform for training agencies and schools to offer their services, and we offer job search guidance and career planning courses to college graduates through this platform. This business has become part of our online education business, since it is currently largely an Internet-based activity.

Because the purchase of both our on-line and our training center is made from discretionary funds, our business is dependent upon both the economy of the People’s Republic of China and the perception of students that they will benefit from improving their ability to perform well on standardized entrance exams for middle school, high school and university.

In December 2006, we acquired, for approximately $1.0 million, all of the fixed assets and franchise rights of Harbin Nangang Compass Computer Training School (“Compass Training School”), which was engaged in the business of providing on-line education resources to computer vocational training school students. As a result of this acquisition, we became the exclusive partner of Beida Qingniao APTEC Software Engineering within Heilongjiang Province in the PRC for vocational training. The acquisition included materials and resources to provide on-site education classes and patented course materials. Compass Training School currently has two principal education programs focused on network engineering and ACCP software engineering with nine on-site classrooms and nine multimedia/computer classrooms at two centers.

We own 70% of Beijing Hua Yu Hui Zhong Technology Development Co., Ltd, which was formed on September 30, 2006. At the time of its organization, we transferred a 30% interest in this subsidiary to the National Vocational Education Association of China, a non-profit, quasi-government entity, for no consideration to enable us to work with the Association’s network to expand our business.

We are in the process of introducing new services aimed at students who want to attend vocational school. These students include high school students who do not continue their education at universities and university graduates who are not able to find employment. The core business for our vocation education will be in three main areas: vocation training, vocational certification, and career development for college graduates. We have collaborated with the National Vocational Education Association of China in setting up www.360ve.com, which provides information regarding vocation training schools and vocation training both on-line and on-site at our training centers.

On April 18, 2008, ZHLD entered into an agreement and supplementary agreement with Harbin Daily Newspaper Group ("Newspaper Group") to invest in a joint venture company, Harbin New Discovery Media Co., Ltd. Media Co., Ltd. ZHLD contributed RMB 3,000,000 (approximately $430,000) and Newspaper Group contributed RMB 3,120,000 (approximately $445,000) towards the registered capital of Harbin New Discovery Media Co., Ltd. In return for their respective contributions, ZHLD will own a 49.02% equity interest and Newspaper Group will own a 50.98% equity interest, respectively, in Harbin New Discovery Media Co., Ltd. The parties are prohibited, for the duration of the joint venture from retiring or transferring their equity interests.

Pursuant to the terms of the supplementary agreement, Newspaper Group assigned all their rights in the "Scientific Discovery", a scientific information newspaper with a focus on education to introduce scientific knowledge to elementary and secondary students exclusively, to the joint venture company, Harbin New Discovery Media Co., Ltd. In the event that the rights to "Scientific Discovery" expire because of reasons other than a change in government policies and an inability to defend against or resist such changes, Newspaper Group is liable to ZHLD for twice the latter's registered contribution in the joint venture in liquidated damages. The transaction closed on July 7, 2008 and as a result, Harbin New Discovery Media Co., Ltd. is now a 49.02% owned equity investment of ZHLD, referred to as a long-term investment in the accompanying balance sheet. Due to our corporate restruction at the end of 2011, and based on the performance of Harbin New Discovery Media Co., Ltd., we have fully impaired this investment.

On January 4, 2009, China Education Alliance's subsidiary, ZHLD entered into an agreement with Mr. Guang Li to jointly incorporate and invest in a joint venture company, Zhong He Li Da (Beijing) Management Consultant Co., Ltd. ("ZHLDBJ"). ZHLD contributed RMB 425,000 (approximately $62,107), and Mr. Guang Li contributed RMB 75,000 (approximately $10,960) towards the registered capital of ZHLDBJ, amounting to a total registered capital of 500,000 RMB (approximately $73,067). In return for their respective contributions, ZHLD owns an 85% equity interest, and Mr. Guang Li owns a 15% equity interest in ZHLDBJ. ZHLD has authorized Mr. Xiqun Yu, the Company CEO, to hold 20% of its equity interest of ZHLDBJ on its behalf. ZHLDBJ will be involved in project called the "Zhong He Win-Win Program", which is designed to fit the needs of Chinese entrepreneurs and to improve their leadership, management and marketing skills. Our comprehensive business training initiatives integrate research-based, proprietary content with processes that are specifically connected to the critical business issues that most private Chinese companies are facing.

On February 3, 2010, China Education Alliance, Inc. announced that through its wholly owned subsidiary, ZHLD, it has incorporated a new company in the PRC, Beijing New Shifan Education & Technology ("New Shifan"), with a registered capital of RMB 1.95 million (approximately $284,962). ZHLD owned a 65% equity interest in New Shifan and the other equity holders together owned a 35% equity interest in New Shifan. In September 2011, New Shifan changed name to Beijing Hua Yu Ping Xue Education Technology Co., Ltd ("HYPX"). In October 2011, ZHLD took over the 35% equity interest from the other equity holders of HYPX, and authorized Mr. Xiqun Yu to hold the 35% equity interest on its behalf. Also in November 2011, HYPX increased its share capital to RMB 2 million (approximately $298,567). In January 2012, due to the changed government rules, the Company authorized Mr. Yu to hold the 100% equity interest on behalf of ZHLD. HYPX is focused on expansion of our training centers in Beijing, and developed extensive marketing strategy to establish new markets in other main cities.

On March 4, 2011, the Company entered into a management agreement (the "Management Agreement") with Nanchang Institute of Technology ("NIT"), a vocational training institution based in Nanchang, People's Republic of China. Pursuant to the Management Agreement, the Company will manage the daily operations of NIT for ten years for an annual management fee of RMB 10 million (approximately $1,461,347). The management fee is payable on a quarterly basis and in the event of late payment, a late fee is imposed. Additionally, a liquidated damage of RMB 50 million (approximately $7,869,678) will be paid by the party that defaults on the Management Agreement.

In connection with the Management Agreement, the Company entered into a loan agreement (the "Loan Agreement"), pursuant to which we will loan NIT RMB 50 million (approximately $7,869,678) to build training facilities and NIT will repay the RMB 50 million in ten years from the date NIT receives the principal. The loan has an annual interest rate of 20% and the interest will be waived by the Company if NIT makes all payments under the Management Agreement in a timely manner. In the event it prepays the principal and interests that are not due, NIT is subject to a prepayment penalty in the amount of 25% of the loan principal. The assets of certain guarantors secure the loan. As of March 31, 2012, the Company loaned NIT RMB 50 million (approximately $7,869,678) and we have accrued RMB 2.5 million (approximately $396,977) in interest receivable and $0 in principal. Currently, we receive 20 % annual interest income due quarterly.

On March 14, 2011, the Company entered into a Share Transfer Agreement with the shareholder of Harbin Tianlang Culture and Education School (“Tianlang”), a tutoring school with 5,000 current students, based in Harbin, People’s Republic of China. Pursuant to the Share Transfer Agreement, the Company purchased 60% of the interests of Tianlang for RMB 35 million (approximately $5.3 million). The shareholder and the Company also provided RMB 2 million (approximately $0.3 million) and RMB 3 million (approximately 0.5 million) as working capital for Tianlang, respectively. After the execution of the Share Transfer Agreement, Tianlang has established a new board of directors with five directors, of which three directors were appointed by the Company and two directors were appointed by the shareholder.

The acquisition of Tianlang was officially completed in April 2011, and the Company is currently co-managing Tianlang with the previous majority owner.

On March 21, 2011, the Company entered into an additional agreement with NIT. Pursuant to the agreement, the Company and NIT will jointly establish Nanchang Institute of Technology College of Vocational Training and Certification (the "College"). NIT will provide facilities for free and the Company will provide teachers, curriculums and certificates of trainings and pay all the expenses incurred in the teaching process. In return, NIT and the Company will receive 20% and 80% of the total revenue of the College, respectively. However, this College is currently under preparation process which managed by the Company.

On May 31, 2011, the Company entered into share transfer agreements with the shareholders of Changchun City Chaoyang District Nuoya Foreign Languages School ("Changchun Nuoya") and Harbin City Nangang District Nuoya Foreign Languages School ("Harbin Nuoya"), two foreign language schools that have over 1,000 current students based in the People's Republic of China. Pursuant to the share transfer agreements, the Company purchased 100% ownership of each of the two schools for RMB 8 million (approximately $1.23 million).

On September 26, 2011, the Company effected a one-for-three reverse stock split of our issued and outstanding common stock. As a result, all common share based data in our discussion of results of operation and financial condition has been retroactively restated to reflect this reverse stock split.

Significant Accounting Estimates and Policies

The discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities. On an on-going basis, we evaluate our estimates including the allowance for doubtful accounts, the salability and recoverability of our products, income taxes and contingencies. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Property and equipment are evaluated for impairment whenever indicators of impairment exist. Accounting standards require that if an impairment indicator is present, we must assess whether the carrying amount of the asset is unrecoverable by estimating the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges. If the recoverable amount is less than the carrying amount, an impairment charge must be recognized based on the fair value of the asset.

Intangible assets and capitalized software, which we acquired from third parties, are amortized over the lives of the rights agreements, which are two to five years. We evaluate the carrying value of the franchise rights during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the intangible asset below its carrying amount. Due to the change of circumstances, we have impaired the investment in New Discovery to nil for the year ended December 31, 2011.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. Our deferred tax assets are from US corporate parent and have been fully reserved. Our US parent provides corporate and administrative functions for the entire consolidated Company. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent that we establish a valuation allowance or increase this allowance in a period, we must include a tax provision or reduce our tax benefit in the statements of operations. We use our judgment to determine our provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We believe, based on a number of factors including historical operating losses, that we will not realize the future benefits of a significant portion of our net deferred tax assets and we have accordingly provided a full valuation allowance against our deferred tax assets. However, various factors may cause those assumptions to change in the near term.

We cannot predict what future laws and regulations might be passed that could have a material effect on our result of operations. We assess the impact of significant changes in laws and regulations on a regular basis and update the assumptions and estimates used to prepare our financial statement when we deem it necessary.

We have determined the significant principles by consulting accounting policies that involve the most complex and subjective decisions or assessments. Our most significant accounting policies are those related to revenue recognition and deferred revenue.

Revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the service has been rendered; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. We believe that these criteria are satisfied upon customers' download of prepaid study materials. Prepaid debit cards allow our subscribers to purchase a predetermined monetary amount of download materials posted on our website. Prepaid service contracts are amortized to income on a straight-line basis over the length of the service contract. These service contracts allow the user to obtain materials for a designated period of time. At the time that the prepaid debit card is purchased, the receipt of cash is recorded as deferred revenue. Revenue is recognized in the month when services are actually rendered. Unused value relating to debit cards is recognized as revenue when the prepaid debit card has expired. Revenue from advertising on our website is recognized when the advertisement is run. Since advertising customers are billed monthly, there is no unearned advertising revenue.

The Company engages an advertisement agency to manage its on-line advertisement revenue. Per the contract with this agency, upon posting of an on-line advertisement on the Company's website, the Company is entitled to share with the agency 50% of the amount charged to the on-line advertiser. The Company recognizes revenue upon posting of an advertisement on their web-site. The agency is responsible for collection of all ad revenue from advertisers. The agency is required to make their remittance for on-line advertising six months after on-line ads are posted on their website.

Prepaid expenses are primarily comprised of advance payments made for services to teachers for on-line materials and video, outdoor advertising and prepaid rent.

Deferred revenue includes subscriber prepayments and education fee prepayments. Subscriber prepayments represents deferred revenue for the purchase of debit cards used to pay for the on-line downloading of education materials, including testing booklets, supplemental materials and teaching video clips. We value the sales based on the actual occurrence of customer download. Therefore, the spare time between the purchase of debit cards and actual download is recorded under advances on accounts as deferred or unearned revenue. Once the download takes place, the amount is then transferred from advances on accounts to sales. Education fee prepayments represent tuition payments and payments for service contracts which are amortized over their respective terms.

We have granted options under the 2009 Incentive Stock Plan and 2011 Incentive Stock Plan to our officers, directors or key employees to purchase 152,000 and 52,667 shares of common stock of the Company, respectively. To the extent that we do adopt such plans in the future, such grants will be valued at the granting date and expensed over the applicable vesting period as required by Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payments.”

Recent Accounting Pronouncements

Recent accounting pronouncements applicable to the Company are summarized below.

- In July 2011, FASB issued ASU 2011-06 *Other Expenses (Topic 720) – Fees Paid to the Federal Government by Health Insurers*. The objective of this Update is to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The Acts impose an annual fee on health insurers for each calendar year beginning on or after January 1, 2014. For reporting entities that are subject to the fee imposed on health insurers mandated by the Acts, the amendments in this Update specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The amendments in this Update are effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. Management is currently evaluating the potential impact of ASU 2011-06 on the Company's consolidated financial statements.

- In December 2011, the FASB issued new accounting guidance that will require disclosure of information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as disclosure of collateral received and posted in connection with these instruments. This new guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. The Company expects that the adoption of this new guidance will not have a material impact on its financial position, results of operations or cash flows.

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to the consolidated statements.

Results of Operations

Comparison of the Quarters Ended March 31, 2012 and 2011

The following table sets forth information from our statements of operations for the quarters ended March 31, 2012 and 2011:

	(Dollars) Three Months Ended March 31,			
	2012		2011	
Revenue	$4,809,607	100 %	$7,000,404	100 %
Cost of revenue	2,607,971	54.2 %	2,377,416	34.0%
Gross Profit	2,201,636	45.8 %	4,622,987	66.0%
Other income	459,373	9.6 %	242,166	3.5 %
Loss from operations	(716,795)	-14.9%	(571,063)	-8.2 %
Net loss before provision for income tax	(257,422)	-5.4 %	(328,897)	-4.7 %
Provision for income taxes	(117,060)	-2.4 %	(106,027)	-1.5 %
Net loss - attributable to CEAI and Subsidiaries	(114,159)	-2.4 %	(174,530)	-2.5 %
Net loss	(140,362)	-2.9 %	(222,870)	-3.2 %

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	(Dollars)			
	Three Months Ended March 31,			
	2012		2011	
Online Education	$		$	
Revenue	2,063,089		3,973,561	
Cost of revenue	1,766,775		1,701,300	
Gross profit	296,314		2,272,261	
Gross margin	14.4	%	57.2	%
Training Center Revenue				
Revenue	2,746,518		3,026,843	
Cost of revenue	841,196		676,116	
Gross profit	1,905,322		2,350,726	
Gross margin	69.4	%	77.7	%

Revenue

Towards the end of 2010, there were unsubstantiated allegations that we failed to disclose material adverse facts about our business, operations, and prospects (the "Allegations") which were cited by major websites and other media. These allegations have severely affected our business and reputation. In addition, the morale of our employees and teachers was adversely affected, which led to unfavorable conditions in our daily operation.

As a result, revenue decreased by $2,190,797 or 31.3% for the quarter ended March 31, 2012 to $4,809,607 as compared to $7,000,404 for the same period in 2011, resulting in a gross profit of $2,201,636 for the quarter ended March 31, 2012 as compared to $4,622,987 for the quarter ended March 31, 2011. Due to the nature of the revenue from advertising, we have reclassified this revenue into on-line education division.

Revenue generated by the on-line education division decreased by $1,910,472, or 48.1%, to $2,063,089 for the quarter ended March 31, 2012 from $3,973,561 for the quarter ended March 31, 2011. The decrease was a result of loss of business directly attributable to the Allegations cited above.

Revenue generated by the training center division decreased by $280,325, or 9.3% to $2,746,518 for the quarter ended March 31, 2012 from $3,026,843 for the quarter ended March 31, 2011. The revenue from the training center division is comprised of revenue from technology training classes, language training classes, vocational training classes etc. The decrease was mainly attributable to a decrease in revenue relating to technology training classes, resulting from the adverse impact of the Allegations. Lately the employment rate for new graduates has been very low and an increasing number of new graduates seek vocational training to enhance their chances of employment. Therefore, we predict that in the future, revenue from our training center division will increase due to higher demand for such training classes.

To negate the adverse impact of the Allegations mentioned earlier, we have restructured our business development plan, acquired three schools during 2011, and designed extensive marketing strategy to win the market. We have set up direct training centers in Beijing and plan to set up training centers in other provinces in the PRC. We are hopeful that with time, we will demonstrate the falsehood of such Allegations and that our business will improve.

Cost of revenue

Our overall cost of revenue increased by $230,555, or 9.7% to $2,607,971 for the quarter ended March 31, 2012 as compared to $2,377,416 for the same period in 2011.

The cost of revenue for our online education division increased by $65,475, or 4% to $1,766,775 for the quarter ended March 31, 2012 as compared to $1,701,300 for the same period in 2011. This increase was mainly attributable to the purchase of new examination papers, tutorial materials, new servers and computers. The gross margin for the online education division decreased to 14.4% for the quarter ended March 31, 2012 from 57.2% for the quarter ended March 31, 2011 due to the decrease in revenue and increase in cost of revenue.

The cost of revenue for our training center division increased $165,080, or 24.4% to $841,196 for the quarter ended March 31, 2012 as compared to $676,116 for the same period in 2011. The increase in the cost of revenue was mainly attributable to the increase in rental and payroll expenses, as we were expanding our training service market in the first quarter of 2012. The training center division’s gross margin decreased to 69.4% for the quarter ended March 31, 2012 from 77.7% for the same period in 2011 as a result of decrease in revenue and increase in cost of revenue.

Selling Expenses

Selling expenses decreased by $1,357,462, or 55.9%, to $1,068,835 for the quarter ended March 31, 2012 from $2,426,297 for the quarter ended March 31, 2011. Selling expenses were 22.2% of total sales for the quarter ended March 31, 2012 compared with 34.7% for the quarter ended March 31, 2011. Our selling expenses include media advertising expenses, agent fees, sales commissions, and other expenses. The decrease in selling expenses was a result of the decrease in revenue and the decrease in outsourced marketing and advertising.

Administrative Expenses

Administrative expenses decreased by $1,424,906, or 58.2% to $1,024,985 for the quarter ended March 31, 2012 as compared to $2,449,891 for the quarter ended March 31, 2011. The decrease was mainly due to the decrease in stock based compensation expenses, office renovation expenses, and office expenses. Total administrative expenses were about 21% of our total revenue for the three months ended March 31, 2012, as compare to 35% for the same period in 2011.

Interest Income

Interest income increased by $39,001, or 8.8% to $482,936 for the quarter ended March 31, 2012 as compared to $443,935 for the same period in 2011. The increase was due to the exchange rate differences between the comparable periods.

Income Taxes

The provision for income tax increased by $11,033, or 10.4%, from deferred tax of $106,027 for the quarter ended March 31, 2011 to $117,060 for the quarter ended March 31, 2012. In 2012, the applicable income tax rate is 15% for the Company's subsidiary ZHLD, as ZHLD had been approved by the local government as being involved in a high technology industry. Otherwise, the regular Chinese statutory tax rate is 25%. Heilongjiang Zhonghe Education Training Center ("ZHTC") is currently exempt from PRC taxation, as it operates a business enterprise engaged in educational opportunities. The Company's other subsidiaries: Beijing Hua Yu Hui Zhong Technology Development Co.,Ltd.("BHYHZ"), Zhong He Li Da(Beijing) Management Consultant Co., Ltd.("ZHLDBJ"), and Beijing Hua Yu Ping Xue Education Technology Co., Ltd ("HYPX") are taxed at the PRC regular statutory rate (25%), and have not accrued taxes since inception due to recurring losses or not having incurred income since inception.

Net Income

As a result of the foregoing, we had net loss attributable to CEAI and Subsidiaries of $114,159, or $0.01 per share basic and $0.01 per share diluted, for the quarter ended March 31, 2012, as compared to net loss of $174,530 or $0.02 per share basic and $0.02 per share diluted, for the same period in 2011. The increase in earnings per share was mainly due to the increase in net income of $60,371 in the quarter ended March 31, 2012. The basic weighted average shares outstanding and diluted weighted average shares outstanding were10,582,503 in the quarter ended March 31, 2012, and 10,325,603 in the same period of 2011, respectively.

Our current operations are primarily conducted in the northeastern region of the PRC. PRC has about 150 million students aged 6 to 18, who are the target of our education services. There are about 10 million students in the 6 to 18 age group in the northeastern region of the PRC. Because we serve approximately 500,000 to 600,000 students in the age group, only 5% of the students in the current market, we believe that we have great potential to grow. Our growth will depend on how we penetrate and expand into the market. Our expansion may take the form of organic growth and/or acquisitions and the key to our growth will be increased student enrollment.

Off-Balance Sheet Arrangements

As of March 31, 2012, we had no off-balance sheet arrangements.

Liquidity and Capital Resources

Our current assets primarily consist of cash, account receivables, and prepaid expenses. We do not have inventory. Our account receivables are primarily from our advertising business on our websites. Our prepaid expenses are primarily advance payments made to teachers for on-line materials, prepaid advertisement fee and prepaid rent.

As of March 31, 2012, we had cash and cash equivalents of $72,808,247, a decrease of $788,912, or 1.1%, from $73,597,159 as of December 31, 2011. Our net cash used in operating activities was $1,136,437 for the quarter ended March 31, 2012, a decrease of $1,913,782 or 246.2% from cash provided by operating activities of $777,345 for the same period in 2011. This decrease was mainly due to: 1) an increase in depreciation and amortization of $793,902 because of the increase in amortization from the acquisition of three schools during the year of 2011; 2) a decrease in stock based compensation of $1,109,516 because of the options expenses has been amortized to nil for the options granted under 2009 option agreements; 3) a decrease in accounts payable and accrued liabilities of $1,007,379 as the payment for the training centers/offices renovation expenses incurred in December 2011 has been made.

As of March 31, 2012, we had working capital of $72,813,776, an increase of $1,630,618 from working capital of $71,183,158 as of December 31, 2011. We consider current working capital and borrowing capabilities adequate to cover our planned operating and capital requirements.

Accounts payable and accrued expenses as of March 31, 2012, were $404,146, a decrease of $1,026,353 or 71.7% compared with $1,430,499 as of December 31, 2011. Deferred revenues as of March 31, 2012, were $950,216, a decrease of $1,327,404 from $2,277,620 as of December 31, 2011. Deferred revenue reflects the unearned portion of debit cards sold in the online education division and unearned tuition from training centers, the decrease in deferred revenue indicated the decrease in sales of debit cards towards the examination period by the end of the quarter ended March 31, 2012, and decrease in enrollments for the onsite training classes during the winter break.

We believe that our working capital, together with our cash flow from operations will be sufficient to enable us to meet our cash requirements for the next 12 months. However, we may incur additional expenses as we seek to expand our business to offer services in other parts of the PRC as well as to market and continue the development of our vocational training activities. We believe we have adequate working capital to fund future growth activities. Although we do not have any current plans to make any further acquisitions, it is possible that we may seek to acquire one or more businesses in the education field, and we may require financing for that purpose. We cannot assure you that funding will be available if and when we require funding.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports filed under the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that this information is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company’s management, including Xiqun Yu, the Company’s chief executive officer, and Cloris Li, the Company’s chief financial officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the quarter ended March 31, 2012. Based upon that evaluation, the Company’s chief executive officer and chief financial officer concluded that the Company’s disclosure controls and procedures were not effective due to a material weakness in our internal control over financial reporting relating to our lack of sufficient accounting personnel with an appropriate understanding of U.S. GAAP and SEC reporting requirements.

In connection with our anticipated growth, we are seeking additional financial and accounting personnel with knowledge of U.S. GAAP and SEC reporting requirements. However, we still have a relatively small number of professionals in bookkeeping and accounting functions, which prevents us from maintaining effective controls and appropriately segregating duties within our internal control systems.

In order to mitigate the material weakness to fullest extent possible, we have taken and are implementing the following measures:

- We have established an audit committee to oversee our accounting and financial reporting;
- We have taken measures to strengthen our accounting department in the year of 2011, including employment of US GAAP experts and appointment of a more qualified Chief Financial Officer. Additionally, we have appointed an Audit Committee member with strong auditing related experience to oversee and improve the quality of our financial reporting.
- We are evaluating the roles of our existing accounting personnel in an effort to realign the reporting structure of our internal auditing staff in the PRC who test and monitor the implementation of our accounting and internal control

procedures;

- We are also seeking additional qualified in-house accounting personnel to ensure that management will have adequate resources in order to attain complete reporting of financial information disclosures in a timely matter;
- We are in the process of completing the review and revision of the documentation of our internal control procedures and policies;
- We intend to provide training to our employees in the PRC to ensure that the importance of internal controls and compliance with established policies and procedures are fully understood throughout the organization and will provide additional U.S. GAAP training to all employees involved with the performance of or compliance with those procedures and policies.

As a result of the foregoing measures, the management believes that the consolidated financial statements and other information presented herewith are materially correct. Management believes that the weakness did not have any effect on the accuracy of the Company's consolidated financial statements for the current reporting period.

Changes in Internal Controls over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

Other than in connection with the implementation of the remedial measures described above, there have been no changes in our internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are presently involved in two putative class action lawsuits filed in the U.S. District Court for the Central District of California. The first action, Apicella v. China Education Alliance, Inc., et al., No. 10-cv-09239 (CAS)(JCx), was filed on December 2, 2010; the second action, Clemens v. China Education Alliance, Inc., et al., No. 10-cv-09987 (JFW) (AGRx), was filed on December 28, 2010. On March 2, 2011, both actions were consolidated in In re China Education Alliance, Inc. Securities Litigation, No. 10-cv-09239 (CAS) (JCx) (C.D. Cal.). The Consolidated Amended Complaint alleged that the Company, Xiqun Yu, Zibing Pan, Susan Liu, Chunqing Wang, James Hsu, Liansheng Zhang, and Yizhao Zhang are liable under Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 for allegedly false and misleading statements and omissions in our public filings between 2008 and 2010 and in an investor conference call in December 2010. The Consolidated Amended Complaint also asserted claims under Section 20(a) of the Securities Exchange Act of 1934 against the individual defendants as persons who allegedly controlled the Company during the time the allegedly false and misleading statements and omissions were made. The Court denied the company's motion to dismiss the Consolidated Amended Complaint on October 11, 2011, and granted (with leave to replead) James Hsu's motion to dismiss the Consolidated Amended Complaint on November 14, 2011. On December 5, 2011, the plaintiffs in the class action filed a Consolidated Second Amended Complaint alleging claims under Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 against the Company, Xiqun Yu, Zibing Pan, Susan Liu, and Chunqing Wang, and alleging claims under Section 20(a) of the Securities Exchange Act of 1934 against Xiqun Yu, Zibing Pan, Susan Liu, Chunqing Wang, James Hsu, Liansheng Zhang, and Yizhao Zhang. The Company answered the Consolidated Second Amended Complaint on January 5, 2012. On April 6, 2012, the court dismissed the claim against Liansheng Zhang but denied motions to dismiss the claims against James Hsu and Yizhao Zhang, the only other defendants served so far.

In addition, on October 28, 2011, a derivative lawsuit was filed on behalf of the Company in the U.S. District Court for the Central District of California against Xiqun Yu, Zibing Pan, Susan Liu, Chunqing Wang, James Hsu, Liansheng Zhang, and Yizhao Zhang for alleged breaches of fiduciary duties based on facts similar to those alleged in the class action. The derivative lawsuit is Padnos v. Yu, et al., No. 11-cv-08973 (CAS) (JCx) (C.D. Cal.). The parties have reached an agreement in principle to settle the derivative action, subject to court approval.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

Exhibit No.	Description
3.1	Articles of Incorporation filed December 2, 1996 in the State of North Carolina are incorporated herein by reference to Exhibit 3.1 to the Form SB-2 Registration Statement of China Education Alliance, Inc. (File No. 333-101167) filed on November 13, 2002.
3.2	Articles of Amendment Business Corporation dated May 23, 2002 are incorporated herein by reference to Exhibit 3.2 to the Form SB-2 Registration Statement of China Education Alliance, Inc. (File No. 333-101167) filed on November 13, 2002.
3.3	Articles of Amendment Business Corporation filed November 17, 2004, changing the name of the Company from ABC Realty Co. to China Education Alliance, Inc. is incorporated herein by reference to Exhibit 3.3 filed with the Company's Form 10-KSB annual report for its fiscal year ended December 31, 2005.
3.4	Articles of Share Exchange of China Education Alliance, Inc. filed with the Department of The Secretary of State of the State of North Carolina on December 30, 2004 are incorporated herein by reference to Exhibit 3.1 filed with China Education Alliance, Inc.'s Form 10-QSB quarterly report for its quarter ended September 30, 2007 filed with the SEC on November 14, 2007.
3.5	Articles of Amendment to Articles of Incorporation filed with the Department of The Secretary of State of the State of North Carolina on October 4, 2007 are incorporated herein by reference to Exhibit 3.2 filed with China Education Alliance, Inc.'s Form 10-QSB quarterly report for its quarter ended September 30, 2007 filed with the SEC on November 14, 2007.
3.6	Articles of Amendment to Articles of Incorporation filed with the Department of The Secretary of State of the State of North Carolina on September 26, 2011 is incorporated herein by reference to Exhibit 3.6 to the Form 10-K filed with the SEC on April 16, 2012.
3.7	By Laws of China Education Alliance, Inc. are incorporated herein by reference to Exhibit 3.3 to the Form SB-2/A Registration Statement of China Education Alliance, Inc. filed on February 7, 2003 (File No. 333-101167).
4.1	China Education Alliance, Inc. 2009 Stock Incentive Plan is incorporated herein by reference to Exhibit 4.1 to the Post-Effective Amendment to Registration Statement on Form S-8 filed with the SEC on June 19, 2009.
4.2	China Education Alliance, Inc. 2011 Stock Incentive Plan is incorporated herein by reference to Exhibit 4.1 to Form S-8 filed with the SEC on July 1, 2011.
10.1	Stock Transaction Agreement between and among China Education Alliance, Inc. and the former owners of Harbin Zhonghelida Educational Technology Co., Ltd., a wholly owned subsidiary of China Education Alliance, Inc. is incorporated herein by reference to Exhibit 10.3 to China Education Alliance, Inc.'s Form 10-KSB for the year ended December 31, 2005 filed with the SEC on April 17, 2006.
10.2	Organization Constitution of Heilongjiang Zhonghe Education Training Center, a wholly owned subsidiary of the Company, dated June 15, 2005, is incorporated herein by reference to Exhibit 10.4 to China Education Alliance, Inc.'s Form 10-KSB for the year ended December 31, 2005 filed with the SEC on April 17, 2006.

10.3	Business licenses of Harbin Zhong He Li Da Educational Technology Company Limited, a wholly owned subsidiary of China Education Alliance, Inc. is incorporated herein by reference to Exhibit 10.5 to China Education Alliance, Inc.'s Form 10-KSB for the year ended December 31, 2005 and filed with the SEC on April 17, 2006.
10.4	Product Commission Process Contract dated March 2, 2006, with Tianjin Huishi Printing Products Co., Ltd. is incorporated herein by reference to Exhibit 10.6 to China Education Alliance, Inc.'s Form 10-KSB for the fiscal year ended December 31, 2005 filed with the SEC on April 17, 2006.
10.5	Consulting Agreement with Conceptual Management Limited dated March 20, 2006 is incorporated herein by reference to Exhibit 10.8 to China Education Alliance, Inc.'s Form 10-KSB for the fiscal year ended December 31, 2005 filed with the SEC on April 17, 2006.
10.6	Form of Secured Promissory Note dated September 29, 2006, by China Education Alliance, Inc. is hereby incorporated herein by reference to Exhibit 10.1 to the Form 8-K current report of China Education Alliance, Inc. filed with the SEC on November 1, 2006.
10.7	Stock Pledge Agreement dated September 29, 2006, between Xiqun Yu and SBI Advisors, LLC, as Agent is hereby incorporated herein by reference to Exhibit 10.2 to the Form 8-K current report of China Education Alliance, Inc. filed with the SEC on November 1, 2006.
10.8	Guarantee Agreement dated as of September 29, 2006, among Harbin Zhong He Li Da Jiao Yu KeJi You Xian Gong Si, Heilongjiang Zhonghe Education Training Center, Harbin Zhonghelida Educational Technology Company Limited, Xinqun Yu, and SBI Advisors, LLC, as Agent is hereby incorporated herein by reference to Exhibit 10.3 to the Form 8-K current report of China Education Alliance, Inc.filed with the SEC on November 1, 2006.

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10.9	Investor Relations Agreement dated November 1, 2006, between China Education Alliance, Inc. and Taylor Rafferty Associates, Inc. is incorporated herein by reference to Exhibit 10.3 to the Form 10-QSB quarterly report of the Company for the period ended June 30, 2006.
10.10	Purchase Contract dated December 28, 2006, between Harbin Zhonghelida Education &Technology Co., Ltd. and Harbin Nangang Compass Computer Training School is incorporated herein by reference to Exhibit 10.11 to China Education Alliance, Inc.'s Form 10-KSB for the fiscal year ended December 31, 2006 filed with the SEC on April 2, 2007.
10.11	Securities Purchase Agreement dated as of May 8, 2007, among China Education Alliance, Inc., Barron Partners, LP and the other investors named therein is hereby incorporated herein by reference to Exhibit 99.1 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.12	3% Convertible Note issued to Barron Partners, LP is hereby incorporated herein by reference to Exhibit 99.2 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.13	3% Convertible Note issued to Eos Holdings is hereby incorporated herein by reference to Exhibit 99.3 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.14	3% Convertible Note issued to Hua-Mei 21st Century Partners, LP is hereby incorporated herein by reference to Exhibit 99.4 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.15	Registration Rights Agreement, dated May 8, 2007, among China Education Alliance, Inc. , Barron Partners, LP and the other investors named therein is hereby incorporated herein by reference to Exhibit 99.5 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.16	Closing Escrow Agreement, dated May 8, 2007, among China Education Alliance, Inc. , Barron Partners, LP, the other investors named therein and the escrow agent named therein is hereby incorporated herein by reference to Exhibit 99.6 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.17	Letter agreement dated May 8, 2007 between China Education Alliance, Inc. and SBI Advisors LLC, and related payment letter is hereby incorporated herein by reference to Exhibit 99.7 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.18	Amendment dated as of May 23, 2007 to the Securities Purchase Agreement dated May 8, 2007, among China Education Alliance, Inc., Barron Partners, LP and the other investors named therein is hereby incorporated herein by reference to Exhibit 99.1 to the Form 8-K of China Education Alliance, Inc. y filed with the SEC on June 7, 2007.
10.19	3% Convertible Note issued to Barron Partners, LP is hereby incorporated herein by reference to Exhibit 99.2 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on June 7, 2007.
10.20	Closing Escrow Agreement, dated May, 2007, among China Education Alliance, Inc., Barron Partners, LP, the other investors named therein and the escrow agent named therein is hereby incorporated herein by reference to Exhibit 99.3 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on June 7, 2007.

10.21	Letter Agreement dated November 30, 2007, among China Education Alliance, Inc. , Barron Partners, LP and the other investors named therein is incorporated herein by reference to Exhibit 10.22 to the Form SB-2/A Registration Statement of China Education Alliance, Inc. (File No. 333-146023) filed with the SEC on December 7, 2007.
10.22	Extracts of Office Rental Agreement dated January 28, 2006 by and between Vocational Education Organization Service Centre and Beijing Hua Yu Hui Zhong Technology Development Co., Limited is incorporated herein by reference to Exhibit 10.22 to the Form 10-KSB of China Education Alliance, Inc. filed with the SEC on March 31, 2008.
10. 23	House Lease Contract dated January 29, 2006 by and between Beijing Yi De Zhi Bang Technology Limited and Beijing Hua Yu Hui Zhong Technology Development Co., Ltd. is incorporated herein by reference to Exhibit 10.24 to the Form 10-KSB of China Education Alliance, Inc. filed with the SEC on March 31, 2008.
10. 24	Employment Contract between Zhong He Li Da Education Technology Co., Ltd and Xiqun Yu dated August 9, 2004 is incorporated herein by reference to Exhibit 10.27 to the Form 10-KSB of China Education Alliance, Inc. filed with the SEC on March 31, 2008.
10.25	Underwriting Agreement dated as of September 29, 2009 by and between the Registrant and Rodman & Renshaw, LLC, is incorporated herein by reference to Exhibit 10.1 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on September 30, 2009.
10.26	Employment Agreement dated as of March 1, 2011 between Alice Lee Rogers and the Registrant is incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on March 4, 2011.
10.27	Employment Agreement dated as of November 30, 2011 between Cloris Li and the Registrant is incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on November 30, 2011.
10.28	Translation of Appointment Agreement between the Company and Xiaohua Gu, dated June 30, 2011, is incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on June 30, 2011.
10.29	Management Agreement dated March 4, 2011 between Nanchang Institute of Technology and Registrant filed with the SEC on March 7, 2011.

10.30	Share Transfer Agreement dated March 14, 2011 between the shareholder of Harbin Tianlang Culture and Education School and the Registrant filed with the SEC on March 17, 2011.
10.31	Agreement dated March 21, 2011 between the Company and Nanchang Institute of Technology.
10.32	Translation of Share Transfer Agreement, dated May 31, 2011, between the Company and the shareholder of Changchun City Chaoyang District Nuoya Foreign Languages School is incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on May 31, 2011.
10.33	Translation of Share Transfer Agreement, dated May 31, 2011, between the Company and the shareholder of Harbin City Nangang District Nuoya Foreign Languages School is incorporated herein by reference to Exhibit 10.2 to the Form 8-K filed with the SEC on May 31, 2011.
10.34	Lease Agreement, dated August 8, 2011, between Beijing Hua Yu Ping Xue Education Technology Co., Ltd. and Langfang Zhongzhi Pipe Real Estate Development Co., Ltd. is incorporated herein by reference to Exhibit 10.34 to the Form 10-K filed with the SEC on April 16, 2012.
10.35	Lease Agreement, dated March 16, 2009, between Harbin Tianlang Culture and Education School and Harbin Zhong Tian Heng Ji Real Estate Consulting Firm is incorporated herein by reference to Exhibit 10.35 to the Form 10-K filed with the SEC on April 16, 2012.
10.36	Lease Agreement, dated June 1, 2011, between Changchun City Chaoyang District Foreign Languages School and Changchun Kaidi Group Industry Co., Ltd. is incorporated herein by reference to Exhibit 10.36 to the Form 10-K filed with the SEC on April 16, 2012.
10.37	Lease Agreement, dated May 15, 2011, between Harbin City Nangang District Nuoya Foreign Languages School and Harbin Gong Da Yang Guang Property Management Co., Ltd. is incorporated herein by reference to Exhibit 10.37 to the Form 10-K filed with the SEC on April 16, 2012.
10.38	Lease Agreement, dated September 7, 2010, between Harbin Zhong He Li Da Education Technology, Inc., and China Overseas Plaza Property Co., Ltd. is incorporated herein by reference to Exhibit 10.38 to the Form 10-K filed with the SEC on April 16, 2012.
10.39	Appointment Letter, dated June 17, 2009, between the Company and Yizhao Zhang is incorporated herein by reference to Exhibit 10.39 to the Form 10-K filed with the SEC on April 16, 2012.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document**

101.SCH XBRL Taxonomy Extension Schema Document**
101.CAL XBRL Taxonomy Calculation Linkbase Document**
101.DEF XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB XBRL Taxonomy Label Linkbase Document**
101.PRE XBRL Taxonomy Presentation Linkbase Document**

*The Exhibit attached to this Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to liability under that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

** Attached as Exhibits 101 to this report are the following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements tagged as blocks of text. The XBRL-related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall not be deemed “filed” or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHINA EDUCATION ALLIANCE, INC.

Date: May 15, 2012	By:	/s/ Xiqun Yu Xiqun Yu Chief Executive Officer and Chairman (Principal Executive Officer)
Date: May 15, 2012	By:	/s/ Cloris Li Cloris Li Chief Financial Officer (Principal Financial Officer)

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