CHINA EDUCATION ALLIANCE INC.
Form 10-Q/A
August 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2011

¨ 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	x
Non-accelerated filer	¨	Smaller reporting company	¨

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 August 9, 2011 there were 31,747,249 shares of $0.001 par value common stock issued and outstanding.

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-Q (this “Amendment”) amends the Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed on August 12, 2011 (the “Original 10-Q”) of China Education Alliance, Inc. (the “Company”). We are filing this Amendment to include the Company’s financial statements formatted in XBRL (eXtensible Business Reporting Language).

This Amendment should be read in conjunction with the Original 10-Q. The Original 10-Q has not been amended or updated to reflect events occurring after June 30, 2011, except as specifically set forth in this Amendment.

FORM 10-Q
CHINA EDUCATION ALLIANCE, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

China Education Alliance, Inc. and Subsidiaries
Consolidated Balance Sheets

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	$72,643,017	$ 71,105,415
Accounts receivable	127,340	-
Other receivable	393,536	432,030
Prepaid expenses	2,197,498	2,834,976
Total current assets	75,361,392	74,372,421
Non-current Assets		
Note receivable	7,349,528	7,172,301
Property and equipment, net	6,531,891	9,946,729
Intangibles and capitalized software, net	12,908,169	1,515,381
Long-term investment	-	559,269
Deferred tax assets	441,464	-
Total non-current assets	27,231,052	19,193,680
Total Assets	$102,592,444	$ 93,566,101
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$209,952	$ 686,102
Deferred revenues	2,658,865	1,072,373
Total current liabilities	2,868,817	1,758,475
Stockholders' Equity		
Common stock ($0.001 par value, 150,000,000 shares authorized, 31,747,249 and 31,261,911 issued at June 30, 2011 and December 31, 2010, respectively;and 412,536 shares held in treasury)	31,747	31,263
Additional paid-in capital	40,864,105	39,705,625
Statutory reserve	5,063,769	3,731,672
Retained earnings	44,760,739	44,591,566
Accumulated other comprehensive income	7,124,184	5,573,565
Less: Treasury stock	(977,072)	(977,072)
Stockholders' equity - China Education Alliance, Inc. and Subsidiaries	96,867,471	92,656,619
Noncontrolling interests in subsidiaries	2,856,156	(848,991)
Total stockholders' equity	99,723,627	91,807,627

Total Liabilities and stockholders's Equity	$102,592,444	$ 93,566,101

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

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China Education Alliance, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenues				
Online education revenues	$ 4,506,649	$ 7,386,469	$ 8,430,237	$ 12,617,532
Training center revenues	4,443,432	2,932,222	7,470,275	5,789,419
Other Revenues	773,027	533,405	823,000	1,062,879
Total revenue	9,723,108	10,852,096	16,723,620	19,469,830
Cost of Goods Sold				
Online education costs	1,507,330	1,128,927	3,200,552	2,242,485
Training center costs	1,138,760	630,956	1,814,876	1,262,925
Other costs	112,299	37,060	120,378	77,837
Total cost of goods sold	2,758,389	1,796,943	5,135,806	3,583,247
Gross Profit				
Online education gross profit	2,999,319	6,257,542	5,229,685	10,375,047
Training center gross profit	3,304,672	2,301,266	5,655,399	4,526,494
Other gross profit	660,728	496,345	702,622	985,042
Total gross profit	6,964,719	9,055,153	11,587,815	15,886,583
Operating Expenses				
Selling expenses	3,117,607	3,478,810	5,543,904	5,719,764
Administrative	1,237,904	572,847	3,687,795	1,027,040
Depreciation and amortization	405,107	264,663	722,969	497,474
Total operating expenses	4,760,618	4,316,320	9,954,668	7,244,278
Income/(Loss) from operations	2,204,101	4,738,833	1,633,146	8,642,305
Other Income/ (Expense)				
Other income/(Expense)	(10,164)	2,245	(70,020)	21,138
Loss on disposal of fixed assets	(499,532)	-	(641,444)	-
Interest income	80,661	50,842	143,120	97,535
Investment loss	-	(6,076)	-	(7,606)
Total other income/(Expense)	(429,034)	47,011	(568,343)	111,067
Net Income Before Provision for Income Tax	1,775,067	4,785,844	1,064,803	8,753,372
Income taxes:				
Current	344,541	(549,966)	344,541	(893,145)
Deferred	(71,353)	-	91,926	-
Net Income	2,048,254	4,235,878	1,501,270	7,860,227
Net Income attributable to the noncontrolling interests	(128,946)	21,162	(80,606)	59,685
Net Income/(Loss) - attributable to CEU and Subsidiaries	$ 1,919,308	$ 4,257,040	$ 1,420,664	$ 7,919,912

Basic Earnings Per Share	$ 0.06	$ 0.14	$ 0.05	$ 0.25
Diluted Earnings Per Share	$ 0.06	$ 0.14	$ 0.05	$ 0.25
Basic Weighted Average Shares Outstanding	31,324,823	31,323,734	31,273,519	31,323,734
Diluted Weighted Average Shares Outstanding	31,324,823	31,363,255	31,273,519	31,377,877
The Components of Other Comprehensive Income				
Net income/(Loss)	$ 1,919,308	$ 4,257,040	$ 1,420,664	$ 7,919,912
Foreign currency translation adjustment	1,028,559	242,100	1,550,619	169,665
Comprehensive income	$ 2,947,867	$ 4,499,140	$ 2,971,282	$ 8,089,577

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

China Education Alliance, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities		
Net Income/(Loss)	$1,501,270	$7,860,227
Adjustments to reconcile net income to net cash provided by Operating activities		
Depreciation and amortization	722,969	497,474
Depreciation and amortization-Cost of goods sold	915,447	416,180
Loss on disposal of fixed assets	641,444	-
Stock based compensation	1,158,965	157,730
Loss on equity investment	-	8,174
Deferred tax assets	(441,464)	-
Net change in assets and liabilities		
Account receivables	(120,542)	(272,210)
Prepaid expenses and other	701,043	713,278
Accounts payable and accrued liabilities	(297,760)	919,764
Other payable/receivable	97,732	-
Deferred revenue	1,378,346	(165,976)
Net cash provided by (used in) operating activities	6,257,450	10,134,641
Cash flows from investing activities		
Proceeds from disposal of fixed assets	1,772,265	(110,111)
Cash used for acquisitions	(7,788,424)	(876,395)
Net cash used in investing activities	(6,016,159)	(986,506)
Cash flows from financing activities		
Warrants exercised	-	298,749
Options exercised	-	38,657
Net cash provided by financing activities	-	337,406
Effect of exchange rate changes on cash	1,296,311	169,665
Net increase (decrease) in cash	1,537,602	9,655,206
Cash and cash equivalents at beginning of period	71,105,415	65,035,332
Cash and cash equivalents at end of period	$72,643,017	$74,690,538
Supplemental disclosure of cash flow information		
Income taxes paid	$2,187,294	$2,719,163
Non-cash investing and financing activities		
Conversion of preferred stock to common	$-	$1,867,644

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

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China Education Alliance, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

1. Description of Business

Nature of organization - China Education Alliance, Inc. (the “Company” or “we”), 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 a plan of exchange (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 People’s Republic of China. Its mission is to promote online exam preparation services in the People’s Republic of China, 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 (the “Guidance Center”) for no consideration. The 30% interest in BHYHZ that the Company transferred to the Guidance Center for no consideration was treated as an intangible asset. The minority ownership interest shares of operating losses of BHYHZ are being absorbed by the Company, as the minority interest holdings have no basis in their investment.

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 holds a 49.02% ownership interest and Newspaper Group holds a 50.98% ownership interest in New Discovery. The parties are prohibited, for the duration of the joint venture from retiring or transferring their ownership interests. This joint venture will create new educational material distribution channels in readable newspaper format in the future. The value of this investment as of June 30, 2011 and 2010 was $0 and 0, respectively.

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 holds an 85% ownership interest, and Mr. Guang Li has a 15% ownership interest in ZHLDBJ. ZHLD has authorized Mr. Xiqun Yu, the Company CEO, to hold 20% of its ownership 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 management, clients and suppliers.

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 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. The partnership with Beida Qingniao expired last year, and we currently meet strong market demand by operating a popular IT training course developed through our own system.

On February 3, 2010, China Education Alliance, Inc. announced that through 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. New Shifan was created to continue the operations of Beijing Shifan Culture Communication Co., Ltd. ("Beijing Shifan"). The Company paid the original owner of Beijing Shifan RMB 6 million (approximately $878,000) to acquire their expertise, in (i) science and math education at the secondary education level, (ii) the rights to continue publishing the magazine “Senior High School Students Mathematic, Physics, and Chemistry” and (iii) the rights to a nationwide contest for middle school and high school students. The Company considers the RMB 6 million payment as an intangible asset whose evaluation and life has not been finalized as of June 30, 2010, accordingly no amortization has been recorded. The old owner will dissolve Beijing Shifan. The focus of New Shifan is on the advancement of science and mathematics education, and the publishing of the "Senior High School Students Mathematic, Physics, and Chemistry" magazine, which has been endorsed by the PRC Ministry of Education. Beijing Shifan is also the sponsor and organizer of a nationwide contest for middle school and high school students. This national competition tests the students' academic abilities in mathematics, physics and chemistry. There are over 100,000 students participating in the contest from 23 provinces in the PRC. Because winners of the contest qualify for enrollment in some of the top universities in the People's Republic of China, New Shifan has a significant impact on the secondary education market in China. Mrs. Yin Xiaojie, the former sole shareholder, owner and CEO of Beijing Shifan, will take on a management position at New Shifan and will hold a 35% ownership interest in New Shifan, while ZHLD holds the remaining 65% ownership interest. There has been minimal operating activity from New Shifan for the quarter ended June 30, 2010.

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 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 $7,306,736) 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 $7,306,736) to build training facilities and NIT will repay the RMB 50 million in ten years from the date NIT receives the principal. The Company loaned NIT approximately 47,000,000 RMB pursuant to this agreement in December 2010. 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.

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 agreed to purchase 60% of the equity interests of Tianlang for RMB 35 million (approximately $5.3 million). The shareholder and the Company also agreed to provide 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 not officially completed until 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 June 30, 2011 balance sheet.

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. The Company is responsible for the College’s operation which began on March 21, 2011.

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 current students, based in the People’s Republic of China.

Pursuant to the Agreements, the Company agreed to purchase 100% of the two schools for RMB 8 million (approximately $1.23 million). The purchase price shall be paid as follows: RMB 500,000 (approximately $76, 852) to be paid on the date when documents for the share transfer are accepted for processing by the government authorities and RMB 7,500,000 (approximately $1.15 million) to be paid within five business days after receipt of new licenses for operation. 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 statement has been consolidated with the Company’s balance sheets since May 2011. The acquired net assets were identifiable intangible assets such as brand value, courses materials and student lists, and the economic useful life was amortized over 20 years. The approximately $2.5 million (RMB 16,000,000) paid by the Company is included in intangible assets on the accompanying June 30, 2011 balance sheet.

2 Basis of Preparation of Financial Statements

The accompanying 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, 2010, filed on April 15, 2011.

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3. Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly subsidiaries (ZHLD and ZHTC) and its majority owned subsidiaries (BHYHZ, ZHLDBJ and New Shifan). All inter-company transactions and balances were eliminated.

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 condensed consolidated balance sheets for cash and cash equivalents approximate their fair value. Substantially all of the Company's cash is held in bank accounts in the PRC and is not protected by FDIC insurance or any other similar insurance. The cash that the Company maintains in US banks are insured up to $250,000 at each bank as of June 30, 2011. The Company's cash at their US banks are in excess of statutorily insured limits at June 30, 2011 and December 31, 2010.

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

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 is 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, capitalized software and New Shifan's expertise, 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 during the six months ended June 30, 2011 and the year ended December 31, 2010.

On April 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 brand name, course materials and student lists. The economic useful life is amortized over 10 years.

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 for the six months ended June 30, 2011 and 2010.

	June 30,	
	2011	2010
RMB: US$ exchange rate	6.46300	6.62270

	6 Months ended	
Average RMB: US$ exchange rate	June 30,	
	2011	2010
	6.54818	6.76950

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 sales 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.

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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 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 offers 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 as of June 30, 2011 and December 31, 2010 was $127,340 and $0, 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. At June 30, 2011 and December 31, 2010, 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 six months ended June 30, 2011 and 2010.

Deferred Revenue - Deferred revenue reflects the unearned portion of debit cards sold and tuition payments received. Deferred revenue as of June 30, 2011 and December 31, 2010 was $2,658,865 and $1,072,373 respectively.

Advertising - The Company expenses advertising costs at the time they are published on 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 and six months ended June 30, 2011 and 2010 were $152,984, $ 293,323 and $328,162 and $675,149, 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 and six months periods ended June 30, 2011 and 2010 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 June 30, 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 June 30, 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

Under the Provisional Regulations of the PRC Concerning Income Tax on Enterprises promulgated by the State Council which came into effect on January 1, 1994, income tax is payable by Wholly Owned Foreign Enterprises (“WOFE’s”) at a rate of 15% of their taxable income. Preferential tax treatment may, however, be granted pursuant to any law or regulations from time to time promulgated by the State Council. ZHLD enjoyed a 100% exemption from enterprise income taxes during 2006 due to its classification as a WOFE. This exemption ended on December 31, 2006, at which time ZHLD qualified under the then current tax structure for a 50% reduction in the statutory enterprise income tax rates for the three years ended December 31, 2007, 2008 and 2009. For the years ended December 31, 2008 and 2007, ZHLD’s effective income tax rate was at 7.5%, based on having received a 50% exemption in the year ended December 31, 2007 when the prevailing effective tax rate was 30%, and an additional 50% exemption as ZHLD was a technology and software entity. During the year ended December 31, 2009, ZHLD obtained similar exemptions to those of the year ended December 31, 2008; however, the prevailing tax rate had a minimum threshold of 10% for the year ended December 31, 2009. In year 2010 ZHLD continues being qualified as a technology and software entity, and expects to receive a 15% statutory PRC enterprise income tax rate. The Company’s ZETC subsidiary is currently exempt from PRC taxation, as it operates a business enterprise engaged in educational opportunities. The Company’s other subsidiaries , BHYHZ, ZHLDBJ and New Shifan are taxed at the PRC statutory rate (25%), and have not accrued for taxes since inception, due to recurring losses or no income incurred since inception.

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 tax benefits from operating losses of approximately $946,000 for the six months ended June 30, 2011 have not been recognized due to the uncertainty of their future realization. In addition, the Company has deferred tax assets of $441,464 for June 30, 2011 and $0 for June 30, 2010.

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 June 30, 2011 and December 31, 2010 the Company has no related party transactions.

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 June 30, 2011.

Cash and cash equivalents of approximately $72,643,000 and $71,105,000 as of June 30, 2011 and December 31, 2010, include money market securities and commercial paper that are considered to be highly liquid and easily tradable as of June 30, 2011. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

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 year 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 October 2009, the FASB issued ASU No. 2009-13, "Multiple-Deliverable Revenue Arrangements." This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. The adoption of this ASU is expected to have minimal to no impact on our consolidated financial statements.

- In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements." This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are "essential to the functionality," and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered "essential to the functionality." The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. The Company is currently evaluating this new ASU.

- In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU has had minimal to no impact on our consolidated financial statements.

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 People's Republic of China, 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 June 30, 2011 and December 31, 2010, the Company maintains cash in the US, in a financial institution insured by the FDIC that has approximately $552,000 and $960,000, respectively, in funds in excess of FDIC insured amounts.

For the six months ended June 30, 2011 and 2010, no single customer accounted for 10% or more of revenue.

Payments of dividends may be subject to some restrictions.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	June 30, 2011	December 31, 2010
Cash on Hand –China	$68,791	$ 4,588
Bank Deposits-China	71,771,791	69,640,382
Bank Deposits-US	802,435	1,460,445
	$72,643,017	$ 71,105,415

As of June 30, 2011, approximately $340,000 on the books of Tianlang School was included in Chinese bank deposits. This amount is in a bank account that is nominally in the name of the schools non-controlling interest owner, the original shareholder of Tianlang School. However, the account is under joint control pursuant to a co-management agreement between the Company and the non-controlling interest owner.

6. Prepaid Expenses

Prepaid Expenses consist of the following:

	June 30, 2011	December 31, 2010
Prepaid rent	$16,889	$ 253,073
Prepaid teachers and online material	443,055	401,962
Prepaid services and professional fees	627,350	78,543
Prepaid advertising	424,983	712,700

Other prepaid expenses	685,222		1,388,698
	$2,197,498	$	2,834,976

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, People’s Republic of China. Pursuant to the Agreement, the Company will manage the daily operations of NIT for ten years for an annual management fee of RMB 10 million. 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 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 will loan NIT RMB 50 million 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 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 $7,172,301 to NIT on December 15, 2010. The principal on the loan is due in ten years. NIT will pay the Company $1,510,000(RMB 10,000,000) annually under the Management Agreement. The full amount of the loan is due in ten years 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 June 30, 2011, the amount of note receivable was $7,349,528.

8. Property and Equipment

Property and Equipment consist of the following:

	June 30, 2011	December 31, 2010
Buildings	$1,939,455	$ 4,593,799
Transportation vehicles	210,750	273,513
Communication equipment	5,276,942	5,968,091
Furniture and fixtures	3,624,731	3,653,441
	11,051,878	14,488,844
Less: Accumulated Depreciation	(4,519,987)	(4,542,115)
Property and equipment, net	$6,531,891	$ 9,946,729

For the three and six months ended June 30, 2011 and 2010, depreciation expenses totaled, $576,945 and $337,186, $1,218,855 and $661,525. Allocated in the three months and six months ended June 30, 2011 and 2010 is depreciation expense totaling $411,545 and $161,036, $778,183 and $318,551 respectively, that is included in cost of goods sold, the remainder of depreciation expense for the respective periods is included in operating expenses.

As of June 30, 2011 the Company does not have any land use rights agreements with the PRC for the office buildings owned by the Company.

In the PRC, land use rights, are the legal rights for an entity to use lands for a fixed period of time. The PRC adopted a dual land tenure system, under which, land ownership is independent of land use rights. The land is either owned by the state (“State Land”) or by rural collective economic organization (“Collective Land”).

9. Business Acquisitions

On March 14, 2011, the Company acquired a 60% controlling interest in Tianlang for a purchase price of RMB 35 million (approximately $5.3 million). The school is a tutoring school with approximately 5,000 enrolled students. The Company estimated the fair value of the 40% non-controlling interest at approximately$3.6 million, based on a reference to the fair value of the Company’s controlling financial interest as determined by the price negotiated in the acquisition. 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.

On May 31, 2011, the Company acquired a 100% ownership in Changchun City Chaoyang District Nuoya Foreign Languages School and Harbin City Nangang District Nuoya Foreign Languages School. These two schools are involved in the instruction of foreign languages, and have a combined enrollment of approximately 1,000 students. 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.

The Company has not yet finalized the accounting for these acquisitions and is provisionally allocating the entire fair value of the acquired businesses to amortizable intangible assets, consisting of trade names, operating licenses, student lists and enrollment relationships, teachers’ contracts, course curricula and educational processes. These intangible assets are provisionally being amortized over a ten year useful life. There is a possibility that the final accounting will result in changes to these provisional allocations, including the recording of residual values to be accounted for as goodwill.

10. Intangibles

Intangible assets consist of franchise rights, capitalized software, trade names, operating licenses, student lists and enrollment relationships, teachers’ contracts, course curricula and educational processes.

For the three and six months ended June 30, 2011 and 2010, amortization expenses totaled $91,282, $136,569, $58,679 and $181,856, respectively.

11. Deferred revenue

Deferred revenue includes 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 June 30, 2011 and December 31, 2010, the Company had deferred revenue of $2,658,865 and $1,072,373, respectively.

12. Stockholders' Equity

The Company recorded the following equity transactions during the six months ended June 30, 2011.

On May 6, 2011, our board of director, Yizhao Zhang was granted 20,000 shares of Common Stock pursuant to the Company's 2011 Incentive Stock Plan.

On January 19, 2011, the Company issued 465,338 shares of common stock with par value $0.001 per share at market closed price at $2.39 to the employees pursuant to the Company's 2009 Incentive Stock Plan.

The Company recorded the following equity transactions during the year ended December 31, 2010.

- Warrants for the acquisition of 99,583 shares of common stock were exercised, resulting in the issuance of 99,583 share of common stock. Total cash received from exercised warrants was $298,749. There were no warrants outstanding, subsequent to these warrants being exercised, as of December 31, 2010.

- Options for the acquisition of 20,660 shares of common stock were exercised at price $2.90, resulting in the issuance of 20,660 share of common stock. Total cash received from exercised options were $59,901.

- A total of 4,502,143 Series A Preferred Shares were converted into 1,500,714 shares of common stock.

- The Company has repurchased our own stock totaling 412,536 shares for the amount of $977,072.

- The cancellation of WEI's 400,000 shares.

13. Warrants and Options

Warrants

For six months ended June 30, 2011 and the year ended December 31, 2010, the Company did not grant any warrants.

As of June 30, 2011, all the Company's previously issued warrants have been exercised and the Company did not have any warrants outstanding.

Stock Options:

During the year ended June 30, 2011, Mr. Zhang was granted another option to purchase 60,000 shares of Common Stock of the Company pursuant to the 2011 Incentive Stock Plan. This option vests on the date of the option and may be exercised till three years from the date of grant, provided Mr. Zhang is still a director of or otherwise engaged by the Company at the date of exercising. The total stock based compensation was $22,208 related to the vesting of previously granted options.

During the year ended December 31, 2010. The options to purchase a total of 20,660 shares of Common Stocks were exercised for the amount of $59,921.

During the year ended December 31, 2010, the total stock based compensation was $180,909.

During the six months ended June 30, 2010, the Company did not grant any stock options. Options for the purchasing of 13,330 shares of common stock were exercised at price $2.90, resulting in the issuance of 13,330 share of common stock.

During the year ended December 31, 2009 the Company established the 2009 Incentive Stock Plan, with 1,000,000 authorized shares to be issued or granted in stock options.

During the quarter ended June 30, 2011, the Company established the 2011 Incentive Stock Plan, with 1,000,000 authorized shares to be issued or granted.

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 June 30, 2011 there are 425,340 options with a weighted average exercise price of $3.29 and a weighted average remaining life of 1.25 years, which remain outstanding and continue to be remeasured at the intrinsic value over their remaining vesting period ranging from 3 months to 1.25 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. A total of approximately $22,393 in compensation expense remains unearned as of June 30, 2011. The intrinsic value for exercisable options as of June 30, 2010 is $0 due to the market price is lower than exercise price.

Stock option activity for the year ended June 30, 2011 is summarized as follows:

	Shares underlying options	Weighted average Exercise Price
Outstanding as of January 1, 2010	456,000	$ 3.33
Granted		
Exercised	(20,660)	-
Expired / cancelled / forfeited	(10,000)	-
Outstanding as of December 31, 2010	425,340	$ 3.33
Granted	60,000	1.26
Exercised	-	-
Expired / cancelled / forfeited	-	-
Outstanding as of June 30, 2011	485,340	$ 3.04

The following table summarizes the Company's stock options outstanding at June 30, 2011.

Exercise Price	Outstanding June 30, 2011	Weighted Average Remaining Life in Years	Number exercisable
$ 3.19	300,000	1.25	200,000
$ 5.59	30,000	1.23	20,000
$ 2.9	95,340	1.22	68,000
$ 1.26	60,000	1.26	60,000
	485,340		348,000

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 six months ended June 30, 2011 and 2010, dilutive shares include shares attributable to exercisable options only if such inclusion would be dilutive.

The following reconciles the components of the EPS computation:

	Six months ended June 30,	
	2011	2010
Net income to common shareholders	$1,420,664	$7,919,912
Weighted average shares outstanding - basic	31,273,519	31,323,734
Effect of dilutive securities	-	66,069
Weighted average shares outstanding - diluted	31,273,519	31,389,803
Income per share – basic	$0.05	$0.25
Income per share - diluted	$0.05	$0.25

15. Commitments and Contingencies

The Company has been served with two lawsuits, The first, Apicella v. China Education Alliance Inc., et all, No 10-cv-09239 (CAS) (JCx), was filed on Dec. 2, 2010. The second, Clemens v, China Education Alliance Inc., et al, No. 10-cv09987 (JFW) (AGRx) was filed on Dec. 28, 2010, in the U.S. District Court for the Central District of California. Both lawsuits claimed, that the Company made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Mr. Clemens purports to sue on his own behalf and on behalf of a class consisting of the Company's stockholders (other than the defendants and their affiliates). The Company believes both these lawsuits are without merit and intends to vigorously defend itself. At this point the Company cannot estimate the outcome of this litigation.

The Company and its subsidiaries are self-insured, and they do not carry any property insurance, general liability insurance, or any other insurance that covers the risks of their business operations. As a result any material loss or damage to its properties or other assets, or personal injuries arising from its business operations would have a material adverse effect on the Company's financial condition and operations.

If a loss should occur, or if management deems that a loss is probable, relating to our Company's product or performance of our services, an accrual for such loss or losses would be recognized at such time of occurrence or determination. The Company has not accrued any losses as of June 30, 2011.

In August 2010, the Company entered into an investor relations consulting agreement. The agreement is for one year. The Company has the right to terminate this agreement at the six month point of the contract, with a thirty day notice. The contract stipulates a fee of $7,500 per month. During the twelve months ended December 31, 2010 the Company expensed $37,500 in consulting fees under this contract. In addition, the contract grants two separate warrants to purchase 25,000 shares for each warrant. The first warrant was granted and vested on October 1, 2010 and expires on October 2, 2012. The exercise price for this warrant was the volume weighted average price of the Company's common stock for the period from August 1, 2010 through August 10, 2010. The second warrant, if the Company proceeds with the contract after six months, is to be granted and vested on February 10, 2011 and expires on February 10, 2013. The exercise price for this warrant will be the volume weighted average price of the Company's common stock for the period from February 1, 2011 through February 10, 2011. The investor relations consulting agreement was terminated on January 10, 2011.

Minimum Lease Commitments

The Company has two office leases, one is located in Harbin with a lease term that expires October of each year and the Company will renew the lease term annually. The other office is located in Beijing with a lease term for 18 months since December 2010.

The Company recorded an aggregate of $250,919 and $189,105 as rent expenses for the fiscal years ended December 31, 2010 and 2009, respectively. Rent expenses for the 5 years after December 31, 2010 are as follows:

2011	$542,672
2012	287,396
2013	32,121
2014	32,121
2015	32,121
	$926,431

16. Operating Risk

(a) Country risk

Currently, the Company's revenue is mainly derived from sale of educational products and services in the People's Republic of China. The Company hopes to expand its operations in the People's Republic of China, 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 People's Republic of China is in a period of growth and is openly promoting business development in order to bring more business into the People's Republic of China. Additionally, the People's Republic of China allows a Chinese corporation to be owned by a United States corporation. If the PRC government changes the laws or regulations, the Company's ability to operate in the People's Republic of China could be affected.

(e) Key personnel risk

The Company’s future success depends on the continued services of executive management in the People’s Republic of China. 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. Subsequent Events

In accordance with ASC 855,”Subsequent Events” the Company evaluates subsequent events after the balance sheet date up through the date that the financial statements are issued.

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 unaudited consolidated financial statements and the related notes thereto, which appear elsewhere in this 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 Registration Statement filed with the U.S. Securities and Exchange Commission on Form S-1 (file no. 333-146023) and any other 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 unaudited 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.

Overview

China Education Alliance is a provider of quality educational resources in China. The Company's main line of business is providing online and offline educational materials to students from grades K-12, and to provide vocational skills training to individuals over 18 years of age. Our website, www.edu-chn.com, has a large database of education preparation materials, test counseling materials, and high-quality educational resources for students in grades K-12, including 500,000 sets of questions that have been collected over the years as well as teaching lesson plans and teaching courseware.

With over 20 learning centers in Beijing, Harbin and Nanchang, we have enough classroom space to meet the needs of nearly 10,000 students. Our educational materials consist of materials provided by elite teachers and schools throughout the nation as well as courses developed by us. Because China's education system is localized, and features multiple categories, we plan to expand our products and services in line with the country's national development plan. We plan to set up another 30 or more education centers providing various education resources by the end of the year 2011 in order to become a large-scale provider of high quality educational resources in China.

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. 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. As of June 30, 2011, we had $127,340 of accounts receivable, which is comprised of on-line advertising.

Our prepaid expenses are $2,197,498 and account for 2.9% of current assets as of June 30, 2011. Prepaid expenses primarily consist of advance payments made for services to teachers, online materials and video, prepaid advertising and prepaid rent. As of June 30, 2011, prepayments to teachers for online materials totaled $443,055, prepayment of rent expense totaled $16,889, prepayments for advertising totaled $424,983, prepaid services and professional fees totaled $627,350, and other prepaid expenses were $685,222. We amortize the prepayments to teachers over six 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.

In our on-line education business segment, the principal component of cost of sales is the cost of obtaining new material to offer students as we increase the available material as well as depreciation related to computer equipment and software and direct labor cost. Our on-line education business generated a gross margin of 66.6% for the six months ended June 30, 2011. The gross margin is affected by the payments we have to make to the teachers for the materials. In our training center business, the principal components of cost of sales are costs of the faculty and the amortization of intangible assets. This business generates a gross margin, which was 74.4% for the six months ended June 30, 2011.

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 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. The partnership with Beida Qingniao expired last year, and we currently meet strong market demand by operating a popular IT training course developed through our own system.

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, in order to enable us to work in cooperation with the Guidance Center's network to expand our business. This cooperation will be of great help in achieving our goal of the nationwide promotion of high-quality professional education resources.

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.

On April 18, 2008, our wholly owned subsidiary, Harbin Zhong He Li Da Education Technology, Inc ("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 holds a 49.02% ownership interest and Newspaper Group holds a 50.98% ownership interest in Harbin New Discovery Media Co., Ltd. The parties are prohibited, for the duration of the joint venture from retiring or transferring their ownership interests. This joint venture has created new educational material distribution channels in readable newspaper format. The value of this investment as of June 30, 2011 is $430,886.

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 reason 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 noncontrolling interest in subsidiaries in the accompanying balance sheet.

On January 4, 2009, 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 holds an 85% ownership interest, and Mr. Guang Li holds a 15% ownership interest in ZHLDBJ. ZHLD has authorized Mr. Xiqun Yu, the Company CEO, to hold 20% of its ownership 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.

On February 3, 2010, we announced that through our wholly owned subsidiary, ZHLD, we have incorporated a new company in the PRC, Beijing New Shifan Education & Technology ("New Shifan"), with a registered capital of RMB 1.95 million. New Shifan was created to continue the operations of Beijing Shifan Culture Communication Co., Ltd. ("Beijing Shifan"). The focus of New Shifan is on the advancement of science and mathematics education, the publishing of the "Senior High School Students Mathematic, Physics, and Chemistry" magazine, which has been endorsed by the PRC Ministry of Education. Beijing Shifan was the sponsor and organizer of a nationwide contest for middle school and high school students, and New Shifan continues to sponsor and organize the contest. This national competition tests the students' academic abilities in mathematics, physics and chemistry. There are over 100,000 students participating in the contest from 23 provinces in the PRC. Because winners of the contest qualify for enrollment in some of the top universities in the People's Republic of China, New Shifan has a significant impact on the secondary education market in China. There has been minimal operating activity from New Shifan for the quarter ended June 30, 2011.

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 $7,306,736) will be paid by the party that defaults on the Management Agreement.

In connection with the Management Agreement, we entered into a loan agreement (the "Loan Agreement"), pursuant to which we will loan NIT RMB 50 million (approximately $7,306,736) 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.

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 agreed to purchase 60% of the interests of Tianlang for RMB 35 million (approximately $5.3 million). The shareholder and the Company also agreed to provide 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 are appointed by the Company and two directors are appointed by the shareholder.

The acquisition of Tianlang was officially completed in April 2011. We are 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. The Company is responsible for the College's operation which began on March 21, 2011.

On May 31, 2011, we 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 a total of 1,000 current students based in the People's Republic of China. Pursuant to the share transfer agreements, the we agreed to purchase 100% ownership of each of the two schools for RMB 8 million (approximately $1.23 million).

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 generally accepted accounting principles ("GAAP"). 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.

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Intangible assets and capitalized software, which we acquired from third parties, are amortized over the lives of the rights agreements, which is two to five years. We evaluate the carrying value of the franchise rights and other intangibles 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 during the quarters ended June 30, 2011 and 2010.

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 asset is from our US corporate parent and has been fully resolved. 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 results 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 statements when we deem it necessary.

We have determined the significant principles by considering accounting policies that involve the most complex or 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 designed 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, online materials and video, prepaid advertising and prepaid rent.

Deferred revenue includes 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, including testing booklets, supplemental materials, and teaching material. 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 revenues. 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.

Recent Accounting Pronouncements

Recent accounting pronouncements applicable to the Company are summarized below.

- In October 2009, the FASB issued ASU No. 2009-13, "Multiple-Deliverable Revenue Arrangements." This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. The adoption of this ASU is expected to have minimal to no impact on our consolidated financial statements.

- In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements." This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are "essential to the functionality," and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered "essential to the functionality." The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. The Company is currently evaluating this new ASU.

- In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU has had minimal to no impact on our consolidated financial statements.

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

Three months Ended June 30, 2011 and 2010

The following table sets forth information from our statements of operations for the three months ended June 30, 2011 and 2010:

	(Dollars) Three Months Ended June 30				
	2011			2010	
Revenue	$9,723,108	100.0	%	$10,825,096	100.0 %
Cost of sales	2,758,389	28.4	%	1,796,943	16.6 %
Gross Profit	6,964,719	71.6	%	9,055,153	83.6 %
Income from operations	2,204,101	22.7	%	4,738,833	43.8 %
Other income/(Expense)	(429,034)	-4.4	%	47,011	0.4 %
Income before income taxes	1,775,067	18.3	%	4,785,844	44.2 %
Provision for income taxes	273,188	2.8	%	(549,966)	-5.1 %
Net income	2,048,254	21.1	%	4,235,878	39.1 %
Less: Net loss attributable to the noncontrolling interest	(128,946)	-1.3	%	(21,162)	-0.2 %
Net income-attributable to CEU and Subsidiaries	1,919,308	19.7	%	4,257,040	39.3 %

The flowing table sets forth information as to the gross margin for our three lines of business for the three months ended June 30, 2011 and 2010:

	(Dollars) Three Months Ended June 30	
	2011	2010
Online Education		
Revenue	$ 4,506,649	$ 7,386,469
Cost of sales	1,507,330	1,128,927
Gross profit	2,999,319	6,257,542
Gross margin	66.6 %	84.7 %
Training Center Revenue		
Revenue	4,443,432	2,932,222
Cost of sales	1,138,760	630,956
Gross profit	3,304,672	2,301,266
Gross margin	74.4 %	78.5 %
Other Revenue		

Revenue	773,027		533,405	
Cost of sales	112,299		37,060	
Gross profit	660,728		496,345	
Gross margin	85.5	%	93.1	%

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Revenue for the three months ended June 30, 2011 (the "June 30, 2011 Quarter") decreased by $1,101,988, or 10.2%, to $9,723,108 from $10,852,096 for the three months ended June 30, 2010 (the "June 30, 2010 Quarter").

Revenue generated by the online education division decreased by $2,879,820, or 39%, to $4,506,649 during the June 30, 2011 Quarter from $7,386,469 during the June 30, 2010 Quarter. This decrease was attributable to allegations regarding the Company cited by major websites and other media since the end of 2010 (the "Allegations"). The reports alleged that we failed to disclose material adverse facts about our business, operations, and prospects. We predict that in the future we will clear the negative publicity and our revenue will increase.

Revenue generated by the training center division increased by $1,511,210, or 51.5% during the June 30, 2011 Quarter from $2,932,222 during the June 30, 2010 Quarter. The revenue from the training division is comprised of revenue from technology training classes, language training classes, vocational training classes etc. The increase was mainly attributable to an increase in revenue relating to technology training classes of approximately $1.2 million while the income from other tutorial classes dropped by about $570,000. We predict that in the future the revenue from our training center division will increase due to higher demand for training classes.

Other Revenue increased by $239,622, or 44.9% during the June 30, 2011 Quarter compared to the June 30, 2010 Quarter. This increase included revenue generated from advertising and network services. Other revenue is not the focus of our business, and in the future we will continue to focus on our main business lines: examination preparation, vocational training and language training.

Deferred revenue reflects the unearned portion of debit cards sold in the online division and unearned tuition from training centers. The deferred revenue is not necessarily in direct proportion to our revenue. Usually the Company's deferred revenue remains at a relatively low level in relation to revenue from debit cards, as most students consume their debit cards in a short period and most tuition is expensed monthly. A change in deferred revenue is not necessarily related to students' enrollment, and also has no impact in subsequent quarters.

Our current activities are primarily conducted in the northeastern section of China. China has about 150 million students aged 6 -18, who are the target of our education services. There are about 10 million students in the 6-18 age group in the northeastern section of China. Because we serve approximately 500,000 – 600,000, we only serve 5% of the students in our current market. Therefore, 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.

Our overall cost of sales increased by $961,446 or 53.5% to $2,758,389 in the June 30, 2011 Quarter, as compared to $1,796,943 in the June 30, 2010 Quarter.

The cost of sales for the online education division of the Company increased by $378,403 or 33.5%. This increase was mainly attributable to the rental of new servers for online education. The online education's gross margin decreased to 66.6% in the June 30, 2011 Quarter from 84.7% in the June 30, 2010 Quarter due to the decrease of online revenues and increased cost of sales.

The cost of sales for the training center division of the Company increased $507,804 or 80.5% during the June 30, 2011 Quarter as compared to the June 30, 2010 Quarter. The increase in the cost of sales was mainly attributable to amortization of prepaid course materials, The gross margin of our training centers decreased to 74.4% in the June 30, 2011 Quarter from 78.5% in the June 30, 2010 Quarter due to the continuous amortization of prepaid class materials, which accounted for approximately $290,000. In the future we expect the cost of sales of our training center division to continue to increase because of the acquisition of two new language schools.

The cost of sales of other revenue increased by $75,239 or 203%. This increase was in tandem with the increase in revenue and was mainly attributable to higher commissions paid to sales persons. The gross margin for our other revenues increased from 85.5% in the June 30, 2010 Quarter to 93.1% in the June 30, 2011 Quarter. In the future we expect the cost of sales of our other revenue to increase as our other revenue increases.

Selling expenses decreased by $361,203 or 10.3% to $3,117,607 in the June 30, 2011 Quarter, from $3,478,810 in the June 30, 2010 Quarter. Selling expenses remained consistent with 31.1% of total sales. Our selling expenses include media advertising, outdoor advertising agent fees, commissions associated with sales of our exam prep debit cards and enrollment of onsite training centers.

Administrative expenses increased by $675,057 or 116.0%, to $1,237,904 in the June 30, 2011 Quarter, as compared to $572,847 in the June 30, 2010 Quarter. This was mainly due to the increase of expenses relating to the Company's promoting, marketing, and advertising activities. Depreciation and amortization increased by $140,444, or 53.0%, to $405,107 in the June 30, 2011 Quarter, as compared to $264,663, in the June 30, 2010 Quarter.

During the June 30, 2011 Quarter, the Company disposed of one training center building and other fixed assets after evaluating the lack of profitability of the location. The total disposal loss and loss of other fixed assets resulted in a loss of $499,532.

We realized an income tax benefit under the Enterprise Income Tax Law of $273,188 from the deduction of 15% of advertising and promotion expenses that were accrued during the year 2010 but were previously non-deductible.

As a result of the foregoing, the Company had net income of $2,048,254, or $.06 per share, basic and diluted, for the June 30, 2011 Quarter, as compared with net income of $4,235,878, or $.14 per share, basic and diluted, for the June 30, 2010 Quarter.

Six months Ended June 30, 2011 and 2010

The following table sets forth information from our statements of operations for the six months ended June 30, 2011 and 2010:

	(Dollars) Six Months Ended June 30								
		2011					2010		
Revenue	$	16,723,620	100.0	%	$	19,469,830	100.0	%
Cost of sales		5,135,806	30.7	%		3,583,247	18.4	%
Gross Profit		11,587,815	69.3	%		15,886,583	81.6	%
Income from operations		1,633,146	9.8	%		8,642,305	44.4	%
Other income/(Expense)		(568,343)	-3.4	%		111,067	0.6	%
Income before income taxes		1,064,803	6.4	%		8,753,372	45.0	%
Provision for income taxes		436,467	2.6	%		(893,145)	-4.6	%
Net income		1,501,270	9.0	%		7,860,227	40.4	%
Less: Net loss attributable to the noncontrolling interest		(80,606)	-0.5	%		59,685	0.3	%
Net income-attributable to CEU and Subsidiaries		1,420,664	8.5	%		7,919,912	40.7	%

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The flowing table sets forth information as to the gross margin for our three lines of business for the six months ended June 30, 2011 and 2010:

	(Dollars) Six Months Ended June 30 2011	2010
Online Education		
Revenue	$ 8,430,237	$ 12,617,532
Cost of sales	3,200,552	2,242,485
Gross profit	5,229,685	10,375,047
Gross margin	62.0 %	82.2 %
Training Center Revenue		
Revenue	7,470,275	5,789,419
Cost of sales	1,814,876	1,262,925
Gross profit	5,655,399	4,526,494
Gross margin	75.7 %	78.2 %
Other Revenue		
Revenue	823,000	1,062,879
Cost of sales	120,378	77,837
Gross profit	702,622	985,042
Gross margin	85.4 %	92.7 %

Revenue for the six months ended June 30, 2011 decreased by $2,746,210, or 14.1%, to $16,723,620 compared to $19,469,830 for the six months ended June 30, 2010. Revenue generated by the online education division decreased by $4,187,295, or 33.2 % during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. Revenue generated by the training center division increased by $1,680,856, or 29.0% during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. Other Revenue decreased by $239,879, or 22.6% during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. Other revenue includes revenue generated from advertising and network services.

There are several reasons for the decrease in revenue. First, after the Allegations were released, a number of parents and teachers adopted a non-cooperative wait and see attitude towards the Company. As a result, there was a decrease in the number of students seeking our services both online and in the classroom. In addition, the morale of the Company’s employees and teachers was adversely affected, which led to unfavorable conditions for the daily operation of the Company. Secondly, the first quarter included the Chinese New Year, which is traditionally a lengthy vacation period. Based on past experience, the first quarter usually experiences a stall or decrease in business. However, during the first quarter of fiscal year 2011, we conducted extensive marketing activities and acquired three schools during the second quarter: Tianlang, Changchun Norya, and Harbin Norya. We also set up direct training centers in Beijing and other provinces nationwide to negate the adverse factors of the Allegations and to re-establish the confidence of the market in the Company.

Our overall cost of sales increased by $1,552,559 to $5,135,806 for the six months ended June 30, 2011 as compared to $3,583,247 for the six months ended June 30, 2010. Our costs increased due to the depreciation of some items such as our online system and class related materials. Additionally, the Allegations brought against the Company had a large impact on the increase in the overall cost of sales of the Company, and caused us to raise our daily expenses for promotion and marketing, which in turn, lowered our profit.

The cost of sales for the online education division of the Company increased by $958,067 or 42.7% during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. This increase was mainly attributable to the continuous amortization of prepaid class materials. The gross margin of the online education division decreased to 62.0% for the six months ended June 30, 2011, from 82.2% for the six months ended June 30, 2010 due to the decrease of online revenue and increase in costs.

The cost of sales for the training center division of the Company increased by $551,951 or 43.7% during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. This increase was mainly attributable to higher salaries paid for developing course materials and amortization of prepaid course materials. The gross margin of the training center division decreased to 75.7% in the six months ended June 30, 2011 from 78.2% for the six months ended June 30, 2010.

The cost of sales of other revenue increased by $42,541 or 54.7% during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010. This increase was mainly attributable to the increase of expenses relating to the Company's marketing and advertising activities. The gross margin for our other revenues decreased about 7.3% to 85.4% during the six months ended June 30, 2011 from 92.7% during the six months ended June 30, 2010.

Selling expenses decreased by $175,860 or 3.1% to $5,543,904 during the six months ended June 30, 2011 from $5,719,764 during the six months ended June 30, 2010. Our selling expenses include advertising, agent fees and commissions associated with sales of our education debit cards. Decreased sales were the most significant factor in the decrease in selling expenses.

Administrative expenses increased by $2,660,755 or 260.0%, to $3,687,795 during the six months ended June 30, 2011 as compared to $1,027,040 during the six months ended June 30, 2010. The increase was primarily related to stock issuances to employees pursuant to the Company's 2009 Incentive Stock Plan (the "Plan"). The Plan was created to reward high-quality teachers who support the development of the Company and have stood by the Company during times of hardship. Management deems the Plan valuable because the Plan helps to negate the fear and lack of confidence in the future of the Company caused by the Allegations, as well as acting to further motivate our employees. Additionally, the Plan will cause teachers who are not granted shares under the Plan to realize the value of the Company and provide the motivation to promote our long-term interests. Another reason for the increased administrative expenses was the increase in decoration expenses for our new training center in Beijing. Additionally, technical service fees and property management fees also increased.

Depreciation and amortization, included in operating expenses, increased by $225,495, or 45.3% to $722,969 during the six months ended June 30, 2011, as compared to $497,474 during the six months ended June 30, 2010. This increase was due to the purchase of fixed assets and intangible assets during the first two quarters of 2011.

In 2011, the applicable income tax rate for the Company and ZHLD is 15%, as both have been approved by the local government as businesses promoting high technology industry. Without this government approval, the regular Chinese statutory tax rate is at 25%. The Company's ZETC subsidiary is currently exempt from PRC taxation, as it operates a business enterprise engaged in educational opportunities. The Company's other subsidiaries: BHYHZ, ZHLDBJ and New Shifan are taxed at the PRC regular statutory rate (25%), and have not accrued taxes since inception, due to recurring losses or no income incurred since inception.

As a result of the foregoing, the Company had a net income of $1,501,270, or $0.05 per share, basic and diluted, during the six months ended June 30, 2011, as compared with net income of $7,860,227, or $.025 per share, basic and diluted, during the six months ended June 30, 2010.

Liquidity and Capital Resources

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

At June 30, 2011, we had cash and cash equivalents of $72,643,017, a increase of $1,537,602 or 2.2%, from $71,105,415 at December 31, 2010. This increase was primarily due to increase in net income during the six months ended June 30, 2011. The biggest expenditure was the acquisition of Tianlang for $5,340,658. Other expenditures included the purchase of fixed assets and other cash flows from operating activities.

Our net cash provided by operating activities was $6,257,450 for the six months ended June 30, 2011, a decrease of $3,877,191 or 38.2% from $10,134,641 for the six months ended June 30, 2010. This decrease was due to a decrease in net income along with the increase of deferred revenue and disposal of fixed assets.

Our cash used in investing activities was $6,016,159 for the six months ended June 30, 2011, an increase of $7,788,424 from $876,395 for the six months ended June 30, 2010. The increase in expenditure was mainly due to the acquisition of a 60% ownership interest in Tianlang.

As of June 30, 2011, we had working capital of $72,492,575, a decrease of $121,371 from working capital of $72,613,946 at December 31, 2010. We consider current working capital and borrowing capabilities adequate to cover our planned operating and capital requirements.

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 People's Republic of China as well as to market and continue the development of our vocational training activities, and it is possible that we may require additional funding for that purpose in the future. It also 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.

Off-Balance Sheet Arrangements

As of June 30, 2011, we had no off-balance sheet arrangements

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of our Disclosure Controls

As of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have evaluated the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"). Disclosure Controls, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon their controls evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our Disclosure Controls are effective at a reasonable assurance level.

Changes in internal control over financial reporting

There have been no changes in our internal controls over financial reporting during our second fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 alleges that we and the other defendants 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 asserts claims under Section 20(a) of the Securities Exchange Act of 1934 against the individual defendants. Additionally, we have reason to believe that another derivative lawsuit may be commenced against the individuals named as defendants in the securities class action lawsuit, although the timing of such potential lawsuit is uncertain. If we were to be subsequently involved in more litigation proceedings, and/or we are unable to settle this lawsuit or any other similar lawsuits on terms favorable to us and/or if adverse judgments were to be levied against us, our profitability could be severely impacted. Also, this class action suit against us could result in substantial costs, potential liabilities and the diversion of management's attention and resources and result in a material adverse effect on our financial condition and results of operations.

Item 1A. Risk Factors

The reader should carefully consider each of the risks described below. If any of the following risks described below should occur, our business, financial condition or results of operations could be materially adversely affected and the trading price of our Common Stock could decline significantly.

Risks Associated with our Business

Our business is dependent upon the PRC government's educational policies and programs.

As a provider of educational services, we are dependent upon governmental educational policies. Almost all of our revenue to date has been generated from the sale of test papers and materials relating to courses at different educational levels. To the extent that the government adopts policies or curriculum changes that significantly alter the testing and course materials used in the PRC educational system, our products could become obsolete, which would affect our ability to generate revenue and operate profitably. We cannot assure you that the PRC government agencies would not adopt such changes.

We are subject to numerous PRC rules and regulations that restrict the scope of our business and could have a material adverse impact on us.

We may be subjected to numerous rules and regulations in the PRC, including, without limitation, restrictions on foreign ownership of Internet and education companies and regulation of Internet content. Many of the rules and regulations that we face are not explicitly communicated, but arise from the fact that education and the Internet are politically sensitive areas of the economy. We are not aware that any of our agreements or our current organizational structure is in violation of any governmental requirements or restrictions, explicit or implicit.

In particular, we do not believe that Administrative Rules on Foreign-Invested Telecommunications Enterprises and the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business apply to us because our corporate structure was established before these rules came into effect. Further, we do not provide connectivity and Internet services. We are primarily in the education business and only a portion of our education resources is disseminated to our paying customers as opposed to the general public via Internet download. Finally, our vocational training services are provided in collaboration with and through a PRC company, China Vocation Education Society. We do not own or have any equity stake in China Vocation Education Society. With regard to our education services, we do not believe that the Administrative Regulations on Educational Websites and Online and Distance Education Schools and the Decision on Cutting Down Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to be Retained apply to us, because we do not offer through our website education services or training programs that directly offer government accredited academic degrees or other government accreditation certifications. Even if these rules applied to us, there appears to be no restriction against foreign ownership and it is unclear whether foreign ownership is restricted for businesses providing such “education websites” or “online education schools”. For more discussion on these issues, please refer to “Foreign Ownership Restrictions on Internet Content Provision Businesses” and “Regulation of Online and Distance Education”.

However, there can be no assurance that we are in compliance now, or will be in the future. Moreover, operating in the PRC involves a high risk that restrictive rules and regulations could change. Indeed, even changes of personnel at certain ministries of the government could have a negative impact on us. With any change in administration, more scrutiny, emphasis or regulation may be levied on our type of business or organizational structure. The determination that our structure or agreements are in violation of governmental rules or regulations in the PRC would have a material adverse impact on us, our business and on our financial results.

Our business may be subject to seasonal and cyclical fluctuations in sales.

We may experience seasonal fluctuations in our revenue in some regions in the PRC, based on the academic year and the tendency of parents and students to make purchases relating to their education just prior to or at the beginning of the school year in the autumn. Any seasonality may cause significant pressure on us to monitor the development of materials accurately and to anticipate and satisfy these requirements.

Our business is subject to the health of the PRC economy.

The purchase of educational materials not provided by the state educational system is discretionary and dependent upon the ability and willingness of families or students to spend available funds on extra educational products to prepare for national examinations. A general economic downturn either in our market or a general economic downturn in the PRC could have a material adverse effect on our revenue, earnings, cash flow and working capital.

We depend on our senior officers to manage and develop our business.

Our success depends on the management skills of Mr. Xiqun Yu, our chief executive officer and president and his relationships with educators, administrators and other business contacts. We also depend on successfully recruiting and retaining highly skilled and experienced authors, teachers, managers, sales persons and other personnel who can function effectively in the PRC. In some cases, the market for these skilled employees is highly competitive. We may not be able to retain or recruit such personnel, which could materially and adversely affect our business, prospects and financial condition.   Except for Ms. Alice Lee Rogers, our Chief Financial Officer, we do not have employment contracts with any other officers or employees. The loss of Mr. Yu would delay our ability to implement our business plan and would adversely affect our business.

We may not be successful in protecting our intellectual property and proprietary rights.

Our intellectual property consists of old test papers, which are contained in our library, and courseware, which we developed by engaging authors and educators to develop these materials. Our proprietary software products are primarily protected by trade secret laws. Although we require our authors and software development employees to sign confidentiality and non-disclosure agreements, we cannot assure you that we will be able to enforce those agreements or that our authors and software development employees will not be able to develop competitive products that do not infringe upon our proprietary rights. We do not know the extent that PRC courts will enforce our proprietary rights.

Others may bring defamation and infringement actions against us, which could be time-consuming, difficult and expensive to defend.

As a distributor of educational materials, we face potential liability for negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that we publish or distribute. Any claims could result in us incurring significant costs to investigate and defend regardless of the final outcome. We do not carry general liability insurance that would cover any potential or actual claims. The commencement of any legal action against us or any of our affiliates, whether or not we are successful in defending the action, could both require us to suspend or discontinue the distribution of some or a significant portion of our educational materials and require us to allocate resources to investigating or defending claims.

We depend upon the acquisition and maintenance of licenses to conduct our business in the PRC.

In order to conduct business in the PRC, we need licenses from the appropriate government authorities, including general business licenses and an education service provider license. The loss or failure to obtain or maintain these licenses in full force and effect will have a material adverse impact on our ability to conduct our business and on our financial condition.

Our growth may be inhibited by the inability of potential customers to fund purchases of our products and services.

Many schools in the PRC, especially those in rural areas, do not have sufficient funds to purchase textbooks, educational materials or computers to use our web-based educational portal. In addition, provincial and local governments may not have the funds to support the implementation of a curriculum using our educational products or may allocate funds to programs, which are different from our products. Our failure to be able to sell our products and services to students in certain areas of the PRC may inhibit our growth and our ability to operate profitably.

Changes in the policies of the government in the PRC could significantly impact our ability to operate profitably.

The economy of the PRC is a planned economy subject to five-year and annual plans adopted by the government that set down national economic development goals. Government policies can have significant effect on the economic conditions of the PRC generally and the educational system in particular. Although the government in the PRC has confirmed that economic development will follow a model of market economy under socialism, a change in the direction of government planning may materially affect our business, prospects and financial condition.

Inflation in the PRC could negatively affect our profitability and growth.

While the economy in the PRC has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in our costs, it may have an adverse effect on profitability. In order to control inflation in the past, the government has imposed controls in bank credits, limits on loans for fixed assets purchase, and restrictions on state bank lending. Such an austerity policy can lead to a slowing economic growth, which could impair our ability to operate profitably.

If we make any acquisitions, they may disrupt or have a negative impact on our business.

If we make acquisitions, we could have difficulty integrating personnel and operations of the acquired companies with our own. In addition, the key personnel of the acquired business may not be willing to work for us. We cannot predict the affect expansion would have on our core business. Regardless of whether we are successful in making an acquisition, the negotiations could disrupt our ongoing business, distract our management and employees and increase our expenses. In addition to the risks described above, acquisitions are accompanied by a number of inherent risks, including, without limitation, the following:

- the difficulty of integrating acquired products, services or operations;
- the potential disruption of the ongoing businesses and distraction of our management and the management of acquired companies;
- the difficulty of incorporating acquired rights or products into our existing business;
- difficulties in disposing of the excess or idle facilities of an acquired company or business and expenses in maintaining such facilities;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- the potential impairment of relationships with employees and customers as a result of any integration of new management personnel;
- the potential inability or failure to achieve additional sales and enhance our customer base through cross-marketing of the products to new and existing customers;
- the effect of any government regulations which relate to the business acquired;
- spend significant amounts to retool, reposition or modify the marketing and sales of acquired products or the defense of any litigation, whether or not successful, resulting from actions of the acquired company prior to our acquisition.

Our business could be severely impaired to the extent that we are unable to succeed in addressing any of these risks or other problems encountered in connection with these acquisitions, many of which cannot be presently identified, these risks and problems could disrupt our ongoing business, distract our management and employees, increase our expenses and adversely affect our results of operations.

Our operations and assets in the PRC are subject to significant political and economic uncertainties.

Government policies are subject to rapid change, and the government of the PRC may adopt policies, which have the effect of hindering private economic activity and greater economic decentralization. There is no assurance that the government of the PRC will not significantly alter its policies from time to time without notice in a manner which reduces or eliminates any benefits from its present policies of economic reform. In addition, a substantial portion of productive assets in the PRC remains government-owned. For instance, all lands are state owned and leased to business entities or individuals through governmental granting of state-owned land use rights. The granting process is typically based on government policies at the time of granting, which could be lengthy and complex. The government of the PRC also exercises significant control over its economic growth through the allocation of resources, controlling payment of foreign currency and providing preferential treatment to particular industries or companies. Uncertainties may arise with changing of governmental policies and measures. In addition, changes in laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency, the nationalization or other expropriation of private enterprises, as well as adverse changes in the political, economic or social conditions in the PRC, could have a material adverse effect on our business, results of operations and financial condition.

Price controls may affect both our revenues and net income.

The laws of the PRC provide the government broad power to fix and adjust prices. Although the sale of educational materials 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. As a result, we may not be able to pass on to our students any increases in costs we incur, or any increases in the costs of our faculty. 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.

Our operations may not develop in the same way or at the same rate as might be expected if the PRC economy were similar to the market-oriented economies of most developed countries.

The economy of the PRC has historically been a nationalistic, “planned economy,” meaning it functions and produces according to governmental plans and pre-set targets or quotas. In certain aspects, the PRC’s economy has been making a transition to a more market-oriented economy, although the government imposes price controls on certain products and in certain industries. However, we cannot predict the future direction of these economic reforms or the effects these measures may have. The economy of the PRC also differs from the economies of most developed countries including with respect to the amount of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the economy of the PRC were similar to those of other developed countries.

Because most of our officers and directors reside outside of the United States, it may be difficult for you to enforce your rights against them or enforce United States court judgments against them in the PRC.

Most of our directors and our executive officers reside in the PRC and all of our assets are located in the PRC. It may therefore be difficult for United States investors to enforce their legal rights, to effect service of process upon our directors or officers or to enforce judgments of United States courts predicated upon civil liabilities and criminal penalties of our directors and officers under federal securities laws. Further, it is unclear if extradition treaties now in effect between the United States and the PRC would permit effective enforcement of criminal penalties of the federal securities laws.

We may have limited legal recourse under PRC law if disputes arise under contracts with third parties.

All of our agreements, which are made by our PRC subsidiaries, are governed by the laws of the PRC. The PRC legal system is a civil law system based on written statutes. Accordingly decided legal cases have little precedential value. The government of the PRC has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, these laws are relatively new and their experience in implementing, interpreting and enforcing these laws and regulations is limited. Therefore, our ability to enforce commercial claims or to resolve commercial disputes may be uncertain. The resolution of these matters may be subject to the exercise of considerable discretion by the parties charged with enforcement of the applicable laws. Any rights we may have to specific performance or to seek an injunction under PRC law may be limited, and without a means of recourse, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

Because we may not be able to obtain business insurance in the PRC, we may not be protected from risks that are customarily covered by insurance in the United States.

Business insurance is not readily available in the PRC. To the extent that we suffer a loss of a type, which would normally be covered by insurance in the United States, such as product liability and general liability insurance, we would incur significant expenses in both defending any action and in paying any claims that result from a settlement or judgment.

Because our funds are held in banks, which do not provide insurance, the failure of any bank in which we deposit our funds could affect our ability to continue in business.

Banks and other financial institutions in the PRC do not provide insurance for funds held on deposit. As a result, in the event of a bank failure, we may not have access to funds on deposit. Depending upon the amount of money we maintain in a bank that fails, our inability to have access to our cash could impair our operations, and, if we are not able to access funds to pay our suppliers, employees and other creditors, we may be unable to continue in business.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in the exchange rate could have a material adverse effect upon our business.

We conduct our business in the Renminbi. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. On July 21, 2005, the PRC government changed its decade old policy of pegging its currency to the U.S. currency. Under the current policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 26% appreciation of the Renminbi against the U.S. dollar between July 21, 2005 and May 10, 2011. However, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. To the extent our future revenues are denominated in currencies other the United States dollars, we would be subject to increased risks relating to foreign currency exchange rate fluctuations which could have a material adverse effect on our financial condition and operating results since our operating results are reported in United States dollars and significant changes in the exchange rate could materially impact our reported earnings.

Recent recalls of PRC products may affect the market for our stock.

Although we do not sell consumer products in the international market, the recent recalls of PRC products in the United States and elsewhere could affect the market for our stock by causing investors to invest in companies that are not based on the PRC.

Certain of our stockholders control a significant amount of our Common Stock.

Our chief executive officer, Mr. Xiqun Yu, owns approximately 40% of our outstanding Common Stock. Depending on the circumstances, Mr. Yu presently may have the voting power from the Common Stock he owns to elect all of the directors and approve any transaction requiring stockholder approval.

Risks Associated with Investing in our Common Stock

The rights of the holders of Common Stock may be impaired by the potential issuance of preferred stock.

Our board of directors has the right, without stockholder approval, to issue preferred stock with voting, dividend, conversion, liquidation or other rights which could adversely affect the voting power and equity interest of the holders of Common Stock, which could be issued with the right to more than one vote per share, could be utilized as a method of discouraging, delaying or preventing a change of control. The possible impact on takeover attempts could adversely affect the price of our Common Stock. Although we have no present intention to issue any additional shares of preferred stock or to create any new series of preferred stock, we may issue such shares in the future.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and operating results and stockholders could lose confidence in our financial reporting.

Internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. Under the current SEC regulations, we are required to include a management report on internal controls over financial reporting beginning with our Form 10-K annual report for the year ended December 31, 2008, and we will be required to include an auditor's report on internal controls over financial reporting for the year ended December 31, 2011. Failure to achieve and maintain an effective internal control environment, regardless of whether we are required to maintain such controls, could also cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price. Although we are not aware of anything that would impact our ability to maintain effective internal controls, we have not obtained an independent audit of our internal controls, and, as a result, we are not aware of any deficiencies, which would result from such an audit. Further, at such time as we are required to comply with the internal controls requirements of Sarbanes Oxley, we may incur significant expenses in having our internal controls audited and in implementing any changes that are required.

Because of our cash requirements and potential government restrictions, we may be unable to pay dividends.

Payment of dividends to our shareholders would require payment of dividends by our PRC subsidiaries to us. This, in turn, would require a conversion of Renminbi into US dollars and repatriation of funds to the United States. Although our subsidiaries' classification as wholly-owned foreign enterprises under PRC law permits them to declare dividends and repatriate their funds to us in the United States, any change in this status or the regulations permitting such repatriation could prevent them from doing so. Any inability to repatriate funds to us would in turn prevent payments of dividends to our shareholders.

Our stock price may be affected by our failure to meet projections and estimates of earnings developed either by us or by independent securities analysts.

Although we do not make projections relating to our future operating results, our operating results may fall below the expectations of securities analysts and investors. In this event, the market price of our Common Stock would likely be materially adversely affected.

Our stock price may be affected by litigation proceedings brought against the Company.

We are presently involved in a class action lawsuit and if we were to be subsequently involved in more litigation proceedings, and/or we are unable to settle this lawsuit or other similar lawsuits on terms favorable to us and/or if adverse judgments were to be levied against us, our profitability could be severely impacted. Also, this class action suit against us could result in substantial costs, potential liabilities and the diversion of management's attention and resources and result in a material adverse effect on our financial condition and results of operations.

The registration and potential sale, either pursuant to a prospectus or pursuant to Rule 144, by certain of our selling stockholders of a significant number of shares could encourage short sales by third parties.

There may be significant downward pressure on our stock price caused by the sale or potential sale of a significant number of shares by certain of our selling stockholders pursuant to a prospectus or pursuant to Rule 144, which could allow short sellers of our stock an opportunity to take advantage of any decrease in the value of our stock. The presence of short sellers in our Common Stock may further depress the price of our Common Stock.

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If the selling stockholders sell a significant number of shares of Common Stock, the market price of our Common Stock may decline. Furthermore, the sale or potential sale of the offered shares pursuant to a prospectus and the depressive effect of such sales or potential sales could make it difficult for us to raise funds from other sources.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

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.	Title of Document
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the 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 Schema Document**
101.CAL	XBRL Calculation Linkbase Document**
101.LAB	XBRL Label Linkbase Document**
101.PRE	XBRL Presentation Linkbase Document**
101. DEF	XBRL Definition 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 Exhibit 101 to this report are the following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements tagged as blocks of text. The XBRL-related information in Exhibit 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

In accordance with the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CHINA EDUCATION ALLIANCE, INC.	
Date: August 16, 2011	By:	/s/ Xiqun Yu Xiqun Yu Chief Executive Officer and President (Principal Executive Officer)
Date: August 16, 2011	By:	/s/ Alice Lee Rogers Alice Lee Rogers Chief Financial Officer (Principal Financial Officer)

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