

CHINA EDUCATION ALLIANCE INC.
Form 10-Q
May 16, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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
(State or other jurisdiction of incorporation or organization)

56-2012361
(I.R.S. Employer Identification No.)

58 Heng Shan Road, Kun Lun Shopping Mall,
Harbin, The 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 No

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

Large accelerated filer Accelerated filer
Non-accelerated filer

Smaller reporting
company

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of May 10, 2011 there were 31,727,249 shares of \$0.001 par value common stock issued and outstanding.

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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

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$67,846,807	\$71,105,415
Accounts receivable	49,999	-
Other receivable	349,667	432,030
Prepaid expenses	2,284,412	2,834,976
Total current assets	70,530,885	74,372,421
Non-current Assets		
Note receivable	7,251,787	7,172,301
Property and equipment, net	9,269,176	9,946,729
Intangibles and capitalized software, net	1,436,843	1,515,381
Long-term investment	5,646,356	559,269
Deferred tax assets	163,278	-
Total non-current assets	23,767,439	19,193,680
Total Assets	\$94,298,324	\$93,566,101
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$716,476	\$686,102
Deferred revenues	686,138	1,072,373
Total current liabilities	1,402,614	1,758,475
Stockholders' Equity		
Common stock (\$0.001 par value, 150,000,000 shares authorized, 31,727,249 and 31,261,911 issued at March 31, 2011 and December 31, 2010, respectively; and 412,536 shares held in treasury)	31,727	31,263
Additional paid-in capital	40,828,516	39,705,625
Statutory reserve	5,063,769	3,731,672
Retained earnings	42,712,375	44,591,566
Accumulated other comprehensive income	6,095,625	5,573,565
Less: Treasury stock	(977,072)	(977,072)
Stockholders' equity - China Education Alliance, Inc. and Subsidiaries	93,754,939	92,656,619
Noncontrolling interests in subsidiaries	(859,230)	(848,991)
Total stockholders' equity	92,895,709	91,807,627

Total Liabilities and stockholders's Equity	\$94,298,324	\$93,566,101
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The accompanying notes are an integral part of these consolidated financial statements.

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

	March 31,	
	2011	2010
Revenues		
Online education revenues	\$3,923,588	\$5,231,063
Training center revenues	3,026,843	2,857,197
Other Revenues	49,973	529,474
Total revenue	7,000,404	8,617,734
Cost of Goods Sold		
Online education costs	1,693,222	1,113,558
Training center costs	676,116	631,969
Other costs	8,079	40,777
Total cost of goods sold	2,377,416	1,786,304
Gross Profit		
Online education gross profit	2,230,366	4,117,505
Training center gross profit	2,350,726	2,225,228
Other gross profit	41,895	488,697
Total gross profit	4,622,987	6,831,430
Operating Expenses		
Selling expenses	2,426,297	2,240,954
Administrative	2,449,891	454,193
Depreciation and amortization	317,862	232,811
Total operating expenses	5,194,050	2,927,958
Income/(Loss) from operations	(571,063)	3,903,472
Other Income/ (Expense)		
Other income/(Expense)	(59,856)	18,893
Loss on disposal of fixed assets	(141,912)	-
Interest income	62,459	46,693
Investment loss	-	(1,530)
Total other income/(Expense)	(139,309)	64,056
Income (Loss) Before Provision for Income Tax	(710,373)	3,967,528
Income taxes:		
Current	-	(343,179)
Deferred	163,279	-
Net Income/(Loss)	(547,094)	3,624,349
Net (income) loss attributable to the noncontrolling interests	48,340	(38,523)
Net Income/(Loss) - attributable to CEU and Subsidiaries	\$(498,754)	\$3,662,872
Basic Income (Loss) Per Share	\$(0.02)	\$0.12

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Diluted Income (Loss) Per Share	\$ (0.02)	\$ 0.12
Basic Weighted Average Shares Outstanding	30,976,810	31,323,734
Diluted Weighted Average Shares Outstanding	30,976,810	31,389,803
The Components of Comprehensive Income		
Net income/(Loss)	\$ (498,754)	\$ 3,662,872
Foreign currency translation adjustment	522,060	(72,435)
Comprehensive income	\$ 23,306	\$ 3,590,437

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

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

	March 31,	
	2011	2010
Cash flows from operating activities		
Net Income/(Loss)	\$(547,094)	\$3,662,872
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	741,226	447,516
Loss on disposal of fixed assets	141,912	
Stock based compensation	1,112,158	78,865
Loss on equity investment		2,097
Loss attributable to the noncontrolling interests	(10,239)	(38,523)
Deferred tax assets	(163,278)	-
Net change in assets and liabilities		
Account receivables	(80,213)	282,188
Prepaid expenses and other	580,814	339,730
Accounts payable and accrued liabilities	(29,412)	(415,572)
Other payable	(182,497)	-
Deferred revenue	(404,358)	(138,833)
Net cash provided by operating activities	1,159,019	4,220,340
Cash flows from investing activities		
Purchases of property and equipment	(24,299)	(72,973)
Acquisition of intangible asset	-	(877,694)
Cash paid for acquisition	(5,340,658)	-
Proceeds from disposal of fixed assets	15,420	-
Net cash used in investing activities	(5,349,537)	(950,667)
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	931,910	(75,484)
Net increase/(decrease) in cash	(3,258,608)	3,531,595
Cash and cash equivalents at beginning of period	71,105,415	65,035,332
Cash and cash equivalents at end of period	\$67,846,807	\$68,566,927
Supplemental disclosure of cash flow information		
Income taxes paid	\$-	\$1,274,074
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.

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”), formerly known as ABC Realty Co., was originally organized under the laws of the State of North Carolina on December 2, 1996. ABC Realty Co.’s primary purpose was to act as a broker or agent in residential real estate transactions. On September 15, 2004, ABC Realty Co. was reorganized pursuant to the Plan of Exchange to acquire Harbin Zhong He Li Da Education Technology, Inc. (“ZHL D”), 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 ZHL D and Duane C. Bennett, the former Chairman of ABC Realty Co., pursuant to which the shareholders of ZHL D 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 ZHL D and ZHL D’s shareholders. As a result of the Plan of Exchange, the transaction was treated for accounting purposes as a recapitalization of ZHL D.

ZHL D 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.

ZHL D’s subsidiary, Heilongjiang Zhonghe Education Training Center (“ZH TC”) 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 ZHL D. ZHL D owns 99% of ZH TC with 1% held in trust by Xiqun Yu, the Company’s CEO, for the benefit of China Education Alliance, Inc.

ZHL D also owns 70% of Beijing Hua Yu Hui Zhong Technology Development Co., Ltd. (“BH YHZ”). BH YHZ 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 BH YHZ 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 BH YHZ 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 own 49.02% equity interest and Newspaper Group own 50.98% equity interest in New Discovery. The parties are prohibited, for the duration of the joint venture from retiring or transferring their equity interests. This joint venture will create new educational material distribution channels in readable newspaper format in the future. The value of this investment as of March 31, 2011 and 2010 was \$430,885 and 339,589, respectively.

On January 4, 2009, China Education Alliance's subsidiary, Harbin Zhong He Li Da Education Technology, Inc ("ZHLD") entered into an agreement with Mr. Guang Li to jointly incorporate and invest in a joint venture company, Zhong He Li Da (Beijing) Management Consultant Co., Ltd. ("ZHLDBJ"). ZHLD contributed RMB 425,000 (approximately, \$62,107), and Mr. Guang Li contributed RMB 75,000 (approximately, \$10,960) towards the registered capital of ZHLDBJ, amounting to a total registered capital of 500,000 RMB (approximately, \$73,067). In return for their respective contributions, ZHLD owns an 85% equity interest, and Mr. Guang Li owns a 15% equity interest in ZHLDBJ. ZHLD has authorized Mr. Xiqun Yu, the Company CEO, to hold 20% of its equity interest of ZHLDBJ on its behalf. ZHLDBJ will be involved in the vocational training business which includes IT engineering and accounting training, in particular, in running the "Million Managers Training Program", with the goal of improving participants' management skills and designing a complete solution for the management, clients and suppliers.

On February 3, 2010, China Education Alliance, Inc. announced that through its wholly owned subsidiary, Harbin Zhong He Li Da Education Technology, Inc. ("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 March 31, 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, 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. Winners of the contest qualify for enrollment in some of the top universities in the People's Republic of China. The new company brings 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 own 35% of the equity interest in New Shifan, while ZHLD owns the remaining 65% interest. There has been minimal operating activity from New Shifan for the quarter ended March 31, 2010.

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 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. After the execution of the Share Transfer Agreement, Tianlong will establish a new board of directors with five directors, of which three directors shall be appointed by the Company and two directors shall be appointed by the shareholder.

The acquisition of Tianlang was not officially completed until April 2011, whereupon we had a 60% equity interest in the school. We are currently co-managing Tianlang with the previous majority owner. The approximately \$5.3 million paid by the Company is included in long-term investments on the accompanying March 31, 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.

The Company’s principal business is the distribution of educational resources through the Internet and training centers. The Company’s website, www.edu-chn.com, is a comprehensive education network platform which is based on network video technology and large data sources of elementary and secondary education resources. The Company has a database comprised of such resources as test papers that are used for elementary and secondary education courses. The database includes more than 350,000 exams and test papers and courseware for elementary and secondary school students. The Company markets this database under the name “Famous Instructor Test Paper Store.” Although a number of the resources are available through the website without charge, our subscribers are charged for services such as the “Famous Instructor Test Paper Store” and for videos on demand. Subscribers can purchase debit cards which can be used to download material from the website.

The Company also provides on-site teaching services in Harbin and other cities, which are marketed under the name “Famed Instructors Classroom.” The Company has a 36,600 square foot training facility in Harbin, Heilongjiang Province, the PRC, which has 17 classrooms and can accommodate up to 1,200 students.

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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.

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 March 31, 2011. The Company’s cash at their US banks are in excess of statutorily insured limits at March 31, 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

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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. Based on this assessment there was no impairment at March 31, 2011 and December 31, 2010.

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 has not completed its evaluation of New Shifan's intangible as of March 31, 2011, accordingly no amortization has been calculated for three months ended March 31, 2011.

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 three months ended March 31, 2011 and the year ended December 31, 2010.

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

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

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

three months ended March 31, 2011 and 2010.

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	March 31,	
	2011	2011
RMB: US\$ exchange rate	6.55011	6.8372
	3 months Ended	
	March 31,	
Average RMB: US\$ exchange rate	2011	2010
	6.55350	6.8409

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.

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 March 31, 2011 and December 31, 2010 was \$49,999 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 March 31, 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 three months ended March 31, 2011 and 2010.

Deferred Revenue - Deferred revenue reflects the unearned portion of debit cards sold and tuition payments received. Deferred revenue as of March 31, 2011 and December 31, 2010 was \$686,138 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 months ended March 31, 2011 and 2010 were \$175,138 and \$381,826, respectively.

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

The Company does not accrue United States income tax on unremitted earnings from foreign operations, as it is the Company's intention to invest these earnings in foreign operations for the foreseeable future. All Company revenues are generated in the PRC. The Company's US operations provide corporate and administrative functions for the entire Company. The Company's tax provisions for the three months ended March 31, 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 March 31, 2010, is not material to its results of operations, financial condition or cash flows. The Company also believes that the total amount of unrecognized tax provisions or benefits as of March 31, 2010, 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 three months ended March 31, 2011 have not been recognized due to the uncertainty of their future realization. In addition, the Company has deferred tax assets of \$163,278 for March 31, 2011 and \$0 for March 31, 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 March 31, 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 March 31, 2011.

Cash and cash equivalents of approximately \$67,847,000 and \$71,105,000 as of March 31, 2011 and December 31, 2010, include money market securities and commercial paper that are considered to be highly liquid and easily tradable as of March 31, 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 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 March 31, 2011 and December 31, 2010, the Company maintains cash in the US, in a financial institution insured by the FDIC that has approximately \$901,000 and \$960,000, respectively, in funds in excess of FDIC insured amounts.

For the three months ended March 31, 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:

	March 31, 2011	December 31, 2010
Cash on Hand -China	6,997	4,588
Bank Deposits-China	66,688,924	69,640,382
Bank Deposits-US	1,150,886	1,460,445
	67,846,807	71,105,415

6. Prepaid Expenses

Prepaid Expenses consist of the following:

	March 31, 2011	December 31, 2010
Prepaid rent	\$ 20,564	\$ 253,073
Prepaid teachers and online material	330,293	401,962
Prepaid services and professional fees	858,755	78,543
Prepaid advertising	817,973	712,700
Other prepaid expenses	256,827	1,388,698
	\$ 2,284,412	\$ 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 March 31, 2011, the amount of note receivable was \$7,251,787.

8. Property and Equipment

Property and Equipment consist of the following:

	March 31, 2011	December 31, 2010
Buildings	\$ 4,647,484	\$ 4,593,799
Transportation vehicles	284,178	273,513
Communication equipment	6,034,230	5,968,091
Furniture and fixtures	3,324,825	3,653,441
	14,290,717	14,488,844
Less: Accumulated Depreciation	(5,021,541)	(4,542,115)
Property and equipment, net	\$ 9,269,176	\$ 9,946,729

For the three months ended March 31, 2011 and 2010, depreciation expenses totaled \$479,426 and \$324,339, respectively. Allocated in the three months ended March 31, 2011 and 2010 is depreciation expense totaling \$275,513 and \$149,485, 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 March 31, 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. Intangibles

Intangibles of the Company consist of franchise rights, software, capitalized software and the transfer of minority interest in the BHYHZ subsidiary for no consideration.

Franchise Rights

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

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

Capitalized Software

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

- The Usage rights for job seekers is software to help university students to search jobs, post their resumes, and communicate with potential employers.

- The Usage right for learners is software to help elementary and secondary students to do assignments, test papers, and get instructions from teachers.

New Shifan's

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 has considered the RMB 6 million (approximately \$878,000) as an intangible asset whose evaluation and life has not been finalized as of March 31, 2010, accordingly no amortization has been recorded

Intangibles consist of the following:

	March 31, 2011	December 31, 2010
ACCP training course	\$ 769,453	\$ 815,377
BENET training course	53,892	60,398
Usage rights- Job Seekers	491,614	452,987
Usage rights- Learners	326,853	301,991
Others	931,211	975,521
New Shifan Expertise	762,212	762,212
	3,335,235	3,368,486
Less: accumulated amortization	(1,898,392)	(1,853,105)
Intangible, Net	\$ 1,436,843	\$ 1,515,381

For the three months ended March 31, 2011 and 2010, amortization expenses totaled \$45,287 and \$123,177, respectively.

Future amortization of intangible assets is as follows:

Year Ended December 31,	
2011	240,332
2012	80,283
2013	13,745
2014	9,164
2015	-
	\$ 343,524

10. 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 March 31, 2011 and December 31, 2010, the Company had deferred revenue of \$686,138 and \$1,072,373, respectively.

11. Stockholders' Equity

The Company recorded the following equity transactions during the three months ended March 31, 2011.

On January 19, 2011, the Company issued 465,338 shares of common stock with par value USA\$0.01 per share at market closed price at US\$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.

12. Warrants and Options

Warrants

For three months ended March 31, 2011 and the year ended December 31, 2010, the Company did not grant any warrants.

As of March 31, 2011, all the Company's previously issued warrants have been exercised and the Company did not have any warrants outstanding.

Stock Options:

During the three months ended March 31, 2011, the Company did not grant any stock options. The total stock based compensation was \$11,199 related to the vesting of previously granted options.

During the year ended December 31, 2010, the Company exercise of 20,660 shares of options in the amount of \$59,921.

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

During the three months ended March 31, 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.

The Company measures the intrinsic value of options at the end of each reporting period until options are exercised, cancelled or expire unexercised. As of March 31, 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 March 31, 2011. The intrinsic value for exercisable options as of March 31, 2010 is \$0 due to the market price is lower than exercise price.

Stock option activity for the year ended March 31, 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	\$ 3.29
Granted	-	-
Exercised	-	-
Expired / cancelled / forfeited	-	-
Outstanding as of March 31, 2011	425,340	\$ 3.29

The following table summarizes the Company's stock options outstanding at March 31, 2011.

Exercise Price	Outstanding March 31, 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
\$ 2.90	95,340	1.22	68,000
	425,340		288,000

13. Earnings Per Share

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

For the three months ended March 31, 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:

	Three Months ended March 31,	
	2011	2010
Net income (loss) to common shareholders	\$ (498,754)	\$ 3,662,871
Weighted average shares outstanding - basic	30,976,810	31,323,734
Effect of dilutive securities	-	66,069
Weighted average shares outstanding - diluted	30,976,810	31,389,803
Income (loss) per share – basic	\$ (0.02)	\$ 0.12
Income (loss) per share - diluted	\$ (0.02)	\$ 0.12

14. Commitments and Contingencies

The Company has been served with two lawsuits, The first, *Apicella v. China Education Alliance Inc., et al*, 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 affect on the Company's