

CHINA EDUCATION ALLIANCE INC.

Form 10-Q/A

February 21, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No.2)

(Mark One)

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

(State or other jurisdiction of incorporation or
organization)

56-2012361

(I.R.S. Employer Identification No.)

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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 No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 August 9, 2011 there were 31,747,249 shares of \$0.001 par value common stock issued and outstanding.

EXPLANATORY NOTE

This Amendment No. 2 to Form 10-Q (this “Amendment”) amends the financial statements in the Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed on August 12, 2011 (“Original Report”) and amended on August 16, 2011, to include the interest income of \$381,745 related to the loan made to Nanchang Institute of Technology and the tax effect of \$57,262 for the quarter ended June 30, 2011 and the interest income of \$763,571 and the tax effect of \$116,045 for the six months ended June 30, 2011 and reclassification between online education revenue and other revenue for the quarter ended June 30, 2011 only. The total revenue remains unchanged.

Except to the extent required to reflect the above-referenced revisions, this Amendment continues to describe the Company as of the date of the Original Report, and does not update disclosures to reflect events that occurred after the date of the Original Report. Accordingly, this Amendment should be read in conjunction with the Original Report and with our other filings made with the Securities and Exchange Commission subsequent to the filing of the Original Report, including any amendments to those filings.

FORM 10-Q/A

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 (Restated) (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$72,643,017	\$ 71,105,415
Accounts receivable	127,340	-
Other receivable	780,354	432,030
Prepaid expenses	2,197,498	2,834,976
Total current assets	75,748,209	74,372,421
Non-current Assets		
Note receivable	7,736,345	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	441,465	-
Total non-current assets	27,617,870	19,193,680
Total Assets	\$ 103,366,079	\$ 93,566,101
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$325,997	\$ 686,102
Deferred revenues	2,658,865	1,072,373
Total current liabilities	2,984,862	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

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Additional paid-in capital	40,864,105	39,705,625
Statutory reserve	5,063,769	3,731,672
Retained earnings	45,409,774	44,591,566
Accumulated other comprehensive income	7,132,737	5,573,565
Less: Treasury stock	(977,072)	(977,072)
Stockholders' equity - China Education Alliance, Inc. and Subsidiaries	97,525,060	92,656,619
Noncontrolling interests in subsidiaries	2,856,157	(848,993)
Total stockholders' equity	100,381,217	91,807,626
Total Liabilities and stockholders's Equity	\$ 103,366,079	\$ 93,566,101

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

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
	(Restated)		(Restated)	
Revenues				
Online education revenues	\$ 5,203,965	\$ 7,386,469	\$ 9,127,553	\$ 12,617,532
Training center revenues	4,443,432	2,932,222	7,470,275	5,789,419
Other Revenues	75,711	533,405	125,792	1,062,879
Total revenue	9,723,108	10,852,096	16,723,620	19,469,830
Cost of Goods Sold				
Online education costs	1,609,324	1,128,927	3,302,546	2,242,485
Training center costs	1,138,760	630,956	1,814,876	1,262,925
Other costs	10,196	37,060	18,384	77,837
Total cost of goods sold	2,758,280	1,796,943	5,135,806	3,583,247
Gross Profit				
Online education gross profit	3,594,641	6,257,542	5,825,007	10,375,047
Training center gross profit	3,304,672	2,301,266	5,655,399	4,526,494
Other gross profit	65,515	496,345	107,408	985,042
Total gross profit	6,964,828	9,055,153	11,587,814	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	2,204,210	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	(499,531)	-	(641,443)	-
Interest income	462,756	50,842	906,692	97,535
Investment loss	-	(6,076)	-	(7,606)
Total other income/(Expense)	(46,939)	47,011	195,229	111,067
Net Income Before Provision for Income Tax	2,157,271	4,785,844	1,828,375	8,753,372
Income taxes:				
Current	230,005	(549,966)	230,005	(893,145)
Deferred	(14,101)	-	91,925	-

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Net Income	2,373,175	4,235,878	2,150,305	7,860,227
Net Income attributable to the noncontrolling interests	(220,873)	21,162	(172,532)	59,685
Net Income/(Loss) - attributable to CEU and Subsidiaries	\$2,152,302	\$4,257,040	\$1,977,773	\$7,919,912
Basic Earnings Per Share	\$0.07	\$0.14	\$0.06	\$0.25
Diluted Earnings Per Share	\$0.07	\$0.14	\$0.06	\$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)	\$2,152,302	\$4,257,040	\$1,977,773	\$7,919,912
Foreign currency translation adjustment	1,036,914	242,100	1,559,173	169,665
Comprehensive income	\$3,189,216	\$4,499,140	\$3,536,946	\$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	2010
	(Restated)	
Cash flows from operating activities		
Net Income/(Loss)	\$2,150,305	\$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
Loan to Nanchang Institute of Technology	(386,817)	
Loss on disposal of fixed assets	641,443	-
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	(181,716)	919,764
Other payable/receivable	(289,085)	-
Deferred revenue	1,378,346	(165,976)
Net cash provided by(used in) operating activities	6,248,894	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	1,304,867	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 adjustment to net income activities		
Loan to Nanchang Institute of Technology	\$386,817	\$-
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” 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. (“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 (“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 ZHL D. ZHL D owns 99% of ZHTC 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. (“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 o