

CHINA EDUCATION ALLIANCE INC.
Form 10-Q
November 13, 2008

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 September 30, 2008

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

For the transition period from _____ to _____

Commission file number: **333-101167**

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)

011-86-451-8233-5794
(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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 September 30, 2008, there were 21,892,631** shares of \$0.001 par value common stock issued and outstanding.

** Adjusted to reflect a 1-for-3 reverse stock split which was effective as of October 12, 2007.

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(Inapplicable items have been omitted)

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements (Unaudited)****China Education Alliance, Inc. and Subsidiaries
Consolidated Balance Sheet**

	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 20,048,307	\$ 11,778,954
Advances to related parties	1,052,269	108,536
Other receivable	296,276	-
Prepaid expenses	2,585,740	1,612,779
Total current assets	23,982,592	13,500,269
Property and equipment, net	6,374,735	6,186,824
Intangible, net	1,901,123	623,560
Long term investment	431,831	-
	\$ 32,690,281	\$ 20,310,653
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 712,727	\$ 423,109
Deferred revenues	1,996,566	1,245,507
Total current liabilities	2,709,293	1,668,616
Stockholders' Equity		
Preferred stock (\$0.001 par value, 20,000,000 shares authorized, of 7,597,645 and 9,397,645 issued and outstanding, respectively, aggregate liquidation preference of \$2,717,152 and \$3,383,152, respectively)	3,010,144	3,677,944
Common stock (\$0.001 par value, 150,000,000 shares authorized, 21,892,631 and 19,409,830, issued and outstanding, respectively)	21,893	19,410
Additional paid-in capital	10,642,986	6,378,110
Statutory reserve		
Accumulated other comprehensive income	2,656,105	1,243,541
Retained earnings	13,649,860	7,323,032
Total stockholders' equity	29,980,988	18,642,037
	\$ 32,690,281	\$ 20,310,653

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

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues				
Online education revenues	\$ 5,126,456	\$ 3,613,550	\$ 12,067,183	\$ 9,958,203
Training center revenues	2,019,933	1,474,969	3,608,317	2,566,298
Total revenue	7,146,389	5,088,519	15,675,500	12,524,501
Cost of Goods Sold				
Online education costs	714,995	568,334	1,622,862	1,855,951
Training center costs	667,066	402,225	1,321,523	848,314
Total cost of goods sold	1,382,061	970,559	2,944,385	2,704,265
Gross Profit				
Online education gross profit	4,411,461	3,045,216	10,444,321	8,102,252
Training center gross profit	1,352,867	1,072,744	2,286,794	1,717,984
Total gross profit	5,764,328	4,117,960	12,731,115	9,820,236
Operating Expenses				
Selling expenses	2,352,018	1,573,632	4,965,036	3,412,798
Administrative	288,083	317,407	935,830	913,073
Depreciation and amortization	264,988	128,124	680,819	341,301
Total operating expenses	2,905,089	2,019,163	6,581,685	4,667,172
Other Income (Expense)				
Other Income	5,570	243,156	534,067	298,650
Interest income	37,991	18,253	94,427	34,339
Interest expense	-	(49,094)	-	(542,173)
Total other income (expense)	43,561	212,315	628,494	(209,184)
Net Income Before Provision for Income Tax	2,902,800	2,311,112	6,777,924	4,943,880
Provision for Income Taxes				
Current	145,889	158,469	451,097	395,214
Net Income	\$ 2,756,911	\$ 2,152,643	\$ 6,326,827	\$ 4,548,666
Basic Earnings Per Share	\$ 0.13	\$ 0.11	\$ 0.30	\$ 0.24
Basic Weighted Average Shares Outstanding	21,434,129	19,321,667	21,434,129	19,319,249
Diluted Earnings Per Share	\$ 0.11	\$ 0.11	\$ 0.26	\$ 0.22