

CHINA EDUCATION ALLIANCE INC.  
Form DEF 14A  
January 15, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a)**

**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for the use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**CHINA EDUCATION ALLIANCE, INC.**

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(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11

(a)(2) and identify the filing for which the offsetting fee was paid previously.

Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

January 15, 2013

Dear Stockholder:

On behalf of the board of directors of China Education Alliance, Inc. (the “Company” or “we”), I invite you to attend our 2013 Annual Meeting of Stockholders (the “Annual Meeting”). We hope you can join us. The Annual Meeting will be held:

China Education Alliance, Inc.

6/F Middle Tower, China Overseas Plaza

At:

No.8 Guanghua Dong Li, Chaoyang District

Beijing 100020, People’s Republic of China

On: February 28, 2013

Time: 10:00 a.m. local time

The Notice of Annual Meeting of Stockholders, the Proxy Statement, the proxy card, and our 2011 Annual Report accompany this letter.

At the Annual Meeting, we will report on important activities and accomplishments of the Company and review the Company’s financial performance and business operations. You will have an opportunity to ask questions and gain an up-to-date perspective on the Company and its activities, and to meet certain directors and key executives of the Company.

As discussed in the enclosed Proxy Statement, the Annual Meeting will also be devoted to the election of three directors to serve until the 2014 Annual Meeting or until their respective successor have been duly elected and qualified, the ratification of the appointment of Albert Wong & Co. as our independent registered public accounting firm for the fiscal year ended December 31, 2012, and consideration of any other business matters properly brought before the Annual Meeting.

We know that many of our stockholders will be unable to attend the Annual Meeting. We are soliciting proxies so that each stockholder has an opportunity to vote on all matters that are scheduled to come before the stockholders at the Annual Meeting. Whether or not you plan to attend, please take the time now to read the Proxy Statement and vote by submitting by mail a paper copy of your proxy or voter instructions card, so that your shares are represented at the meeting. You may also revoke your proxy or voter instructions at any time prior to the Annual Meeting. Regardless of the number of Company shares you own, your presence in person or by proxy is important for quorum purposes and your vote is important for proper corporate action.

Thank you for your continuing interest in China Education Alliance, Inc. We look forward to seeing you at the Annual Meeting. If you have any questions about the Proxy Statement, please contact us at China Education Alliance, Inc., 58 Heng Shan Road, Kun Lun Shopping Mall, Harbin, People's Republic of China, 150090.

Sincerely,

/s/ Xiqun Yu

Xiqun Yu  
Chairman, President and Chief Executive Officer

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**CHINA EDUCATION ALLIANCE, INC.**

**58 HENG SHAN ROAD**

**KUN LUN SHOPPING MALL**

**HARBIN, PEOPLE'S REPUBLIC OF CHINA 150090**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON FEBRUARY 28, 2013**

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To the Stockholders of CHINA EDUCATION ALLIANCE, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of CHINA EDUCATION ALLIANCE, INC. (the "Company"), a North Carolina corporation, will be held at China Education Alliance, Inc., 6/F Middle Tower, China Overseas Plaza, No.8 Guanghua Dong Li, Chaoyang District, Beijing 100020, People's Republic of China ("PRC") on February 28, 2013 at 10:00 a.m. local time, for the following purposes:

1. To elect three directors to serve until the 2014 Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified, or until such director's earlier resignation, removal or death;
2. To ratify the appointment of Albert Wong & Co. as our independent registered public accounting firm for our fiscal year ended December 31, 2012; and
3. To act on such other matters as may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on January 2, 2013 as the record date for the meeting and only holders of shares of record at that time will be entitled to notice of and to vote at the Annual Meeting of Stockholders or any adjournment or adjournments thereof.

By Order of the Board of Directors.  
/s/ Xiqun Yu  
Chairman, President and Chief Executive Officer

Harbin, PRC

January 15, 2013

**IMPORTANT**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON FEBRUARY 28, 2013: THIS PROXY STATEMENT TO THE STOCKHOLDERS WILL BE AVAILABLE AT [WWW.PROXYVOTE.COM](http://WWW.PROXYVOTE.COM).**



**CHINA EDUCATION ALLIANCE, INC.**

**58 HENG SHAN ROAD**

**KUN LUN SHOPPING MALL**

**HARBIN, PEOPLE'S REPUBLIC OF CHINA 150090**

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**PROXY STATEMENT**

**FOR**

**ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD FEBRUARY 28, 2013**

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**Date, Time and Place of the Annual Meeting**

The enclosed proxy is solicited by the Board of Directors (the "Board") of China Education Alliance, Inc. (the "Company"), a North Carolina corporation, in connection with the 2013 Annual Meeting of Stockholders ("Annual Meeting") to be held at China Education Alliance, Inc., 6/F Middle Tower, China Overseas Plaza, No.8 Guanghai Dong Li, Chaoyang District, Beijing, PRC 100020 ("Annual Meeting") on February 28, 2013, at 10:00 a.m. local time, and any adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting.

The principal executive office of the Company is 58 Heng Shan Road, Kun Lun Shopping Mall, Harbin, PRC 150090, and its telephone number, including area code, is 86-451-8233-5794.

**Purpose of the Annual Meeting**

At the annual meeting, you will be asked to consider and vote upon the following matters:

1. To elect three directors to serve until the 2014 Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified, or until such director's earlier resignation, removal or death;
2. To ratify the appointment of Albert Wong & Co. as our independent registered public accounting firm for our fiscal year ended December 31, 2012; and
3. To act on such other matters as may properly come before the meeting or any adjournment or adjournments thereof.

### **Internet Delivery of Proxy Materials**

In accordance with rules and regulations adopted by the Securities and Exchange Commission (the "SEC"), instead of mailing a printed copy of our proxy materials to each stockholder of record, we may furnish proxy materials, including this proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the "2011 Annual Report"), by providing access to such documents on the Internet. Most stockholders will not receive printed copies of the proxy materials unless they request them, in which case printed copies of the proxy materials will be provided at no charge.

Instead of mailing a printed copy of our proxy materials to each stockholder of record, a Notice of Internet Availability of Proxy Materials (the "Notice of Internet Availability") was mailed to such stockholders on or about January 15, 2013 that instructs you as to how you may access and review all of the proxy materials on the Internet. The Notice of Internet Availability also instructs you as to how you may submit your proxy on the Internet or by telephone. Any stockholder may request to receive proxy materials in printed form by mail or electronically by e-mail on an ongoing basis by following the instructions set forth in the Notice of Internet Availability. Choosing to receive future proxy materials by e-mail will save us the cost of printing and delivering documents to stockholders and will reduce the environmental impact of our annual meetings. A stockholder's election to receive proxy materials by e-mail will remain in effect until the stockholder terminates the election.

### **Important Notice Regarding the Availability of Proxy Materials**

Our Proxy Statement and our 2011 Annual Report to Stockholders are available at [www.proxyvote.com](http://www.proxyvote.com). This website address contains the following documents: the Notice of the Annual Meeting, our Proxy Statement and our 2011 Annual Report to Stockholders. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

### **Voting Rights and Revocation of Proxies**

The record date with respect to this solicitation is the close of business on January 2, 2013 (the “Record Date”) and only stockholders of record at that time will be entitled to vote at the Annual Meeting and any adjournment or adjournments thereof.

The shares of the Company’s common stock, par value \$0.001 (“Common Stock”), represented by all validly executed proxies received in time to be taken to the meeting and not previously revoked will be voted at the meeting. This proxy may be revoked by the stockholder at any time prior to its being voted by filing with the Chief Executive Officer of the Company either a notice of revocation or a duly executed proxy bearing a later date. We intend to release this Proxy Statement and the enclosed proxy card to our stockholders on or about January 15, 2013.

### **Dissenters’ Right of Appraisal**

Holders of shares of our Common Stock do not have appraisal rights under North Carolina law or under the governing documents of the Company in connection with this solicitation.

### **Quorum**

The number of outstanding shares of Common Stock entitled to vote at the meeting is 10,582,530. Each share of Common Stock is entitled to one vote. The presence in person or by proxy at the Annual Meeting of the holders of a majority of such shares shall constitute a quorum. There is no cumulative voting. Shares that abstain or for which the authority to vote is withheld on certain matters (so-called “broker non-votes”) will, however, be treated as present for quorum purposes on all matters.

## **Broker Non-Votes**

Holders of shares of our Common Stock that are held in street name must instruct the organization that holds their shares how to vote their shares. If such voting instructions are not provided, then the shares that are held in street name will not be voted on any non-routine proposal. This vote is called a “broker non-vote.” If you sign your proxy card but do not provide instructions on how your broker should vote, your broker will vote your shares as recommended by our Board. Broker non-votes are not included in the tabulation of the voting results of any of the proposals and, therefore, do not effect these proposals.

Brokers cannot use discretionary authority to vote shares on the election of directors if they have not received instructions from their clients. Please submit your vote instruction form so your vote is counted.

With the exception of Proposal 2, the ratification of the appointment of Albert Wong & Co. as our independent registered public accounting firm for our fiscal year ended December 31, 2012, all of the proposals to be voted upon at the Annual Meeting are considered non-routine.

## **Required Vote**

Assuming the presence of a quorum at the Annual Meeting:

Directors shall be elected by a plurality of the votes cast; and  
The affirmative vote of a majority of Common Stock present at the meeting and entitled to vote on each matter is required to ratify the appointment of Albert Wong & Co. as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2012.

Votes shall be counted by one or more persons who shall serve as the inspector of election. The inspector of election will canvas the stockholders present in person at the meeting, count their votes and count the votes represented by proxies presented. Abstentions and broker non-votes are counted for purposes of determining the number of shares represented at the meeting, but are deemed not to have voted on the proposal.

In voting by proxy with regard to the election of directors, you may vote in favor of all nominees, withhold your votes as to all nominees, or withhold your votes as to specific nominees. With regard to other proposals, you may vote in favor of each proposal or against each proposal, or in favor of some proposals and against others, or you may abstain from voting on any or all of the proposals. You should specify your respective choices on the accompanying proxy card or your vote instruction form.

## **Solicitation of Proxies**

The expenses of solicitation of proxies will be paid by the Company. We may solicit proxies by mail, and the officers and employees of the Company may solicit proxies personally or by telephone and will receive no extra compensation from such activities. The Company will reimburse brokerage houses and other nominees for their expenses incurred in sending proxies and proxy materials to the beneficial owners of shares held by them.

## **Interest of Officers and Directors in Matters to Be Acted Upon**

None of our officers or directors has any interest in any of the matters to be acted upon at the Annual Meeting.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information with respect to the beneficial ownership of our voting securities by (i) any person or group owning more than 5% of any class of voting securities, (ii) each director, (iii) our chief executive officer and (iv) all executive officers and directors as a group as of January 14, 2013.

Name and Address	Number of Shares Beneficially Owned (1)	Percentage of Outstanding Shares (1)	
5% Shareholder Zesiger Capital Group LLC 460 Park Avenue 22nd Floor New York, NY 10022 (2)	727,400	6.87	%
Executive Officers and Directors Xiqun Yu 58 Heng Shan Rd. Kun Lun Shopping Mall Harbin, PRC 150090 (3)	4,327,779	40.51	%
Cloris Li 58 Heng Shan Rd. Kun Lun Shopping Mall Harbin, PRC 150090	—	—	
Liansheng Zhang (4) 58 Heng Shan Rd. Kun Lun Shopping Mall Harbin, PRC150090	3,334	*	
Yizhao Zhang 45 Old Millstone Drive, NIT 6 East Windsor, NJ08520 (5)	36,667	*	
Xiaohua Gu 58 Heng Shan Rd. Kun Lun Shopping Mall Harbin, PRC150090	-	-	
Officers and Directors as a group (five individuals)	4,364,780	40.73	%

\*Represents less than 1%

In determining beneficial ownership of our common stock as of a given date, the number of shares shown includes shares of common stock which may be acquired on exercise of warrants or options or conversion of convertible securities within 60 days of that date. In determining the percent of common stock owned by a person or entity on January 14, 2013, (a) the numerator is the number of shares of the class beneficially owned by such person or (1)entity, including shares which may be acquired within 60 days on exercise of warrants or options and conversion of convertible securities, and (b) the denominator is the sum of (i) the total shares of common stock outstanding on January 14, 2013 (10,582,530), and (ii) the total number of shares that the beneficial owner may acquire upon conversion of the preferred and on exercise of the warrants and options. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of its shares.

Clients for whom Zesiger Capital Group LLC (“ZCG”) acts as investment adviser may withdraw dividends or the (2)proceeds of sales from the accounts managed by ZCG. No single client account owns more than 5% of the class of securities.

The shares beneficially owned by Xiqun Yu include (a) 4,227,779 shares of common stock directly owned by (3)Xiqun Yu, and (b) an option granted by the Company on June 18, 2009, to purchase 100,000 shares of the Company’s common stock in three equal installments, the first being vested on the date of the grant, and additional installments being vested on the first and second anniversaries of the date of the grant.

Liansheng Zhang was granted an option to purchase 3,334 shares of the common stock of the Company on June 18, 2009. The option shall become exercisable during the term of the Liansheng Zhang's employment in three (4)equal annual installments of 1,111 shares of common stock each (save for the last installment of 1,112 shares), the first installment to be exercisable on the date of this option, with additional installments becoming exercisable on each of the first and second anniversaries following the date of the option.

The shares beneficially owned by Yizhao Zhang include (a) 6,667 shares of common stock directly owned by Yizhao Zhang, (b) an option granted by the Company on June 18, 2009, to purchase 10,000 shares of the Company’s common stock in three equal installments, the first being vested on the date of the grant, and additional (5)installments being vested on the first and second anniversaries of the date of the grant, among which 6,667 shares of common stocks were exercised by Yizhao Zhang, (c) an option granted by the Company on July 1, 2011, to purchase 20,000 shares of the Company’s common stock pursuant to the 2011 Incentive Stock Plan, which 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.

There are no arrangements known to the Company, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

**PROPOSAL 1:**

**ELECTION OF DIRECTORS**

**Nominees for Director**

Three directors are to be elected at the Annual Meeting to serve until the 2014 Annual Meeting. If for some unforeseen reason one or more of the nominees is not available as a candidate for director, the Proxies may be voted for such other candidate or candidates as may be nominated by the Board.

The following table sets forth the positions and offices presently held with the Company by each nominee, his age as of the Record Date, and the year in which he became a director. Proxies not marked to the contrary will be voted in favor of each such nominee's election. The Board recommends a vote FOR all nominees.

Name	Age	Position with the Company	Director Since
Xiaohua Gu	39	Director	June 2011
Liansheng Zhang	71	Director	October 2007
Xiqun Yu	45	Director	December 2004

The following is a summary of the biographical information of our director-nominees:

**Mr. Xiaohua Gu** has been a director since June 2011. Mr. Gu is a partner at Richlink Capital, a financial service institution focusing on private equity fund management and investment banking services. From July 2006 to February 2010, Mr. Gu worked as assistant manager in taxation at the Hangzhou Office of KPMG Advisory (China) Limited, where he was engaged in providing tax advisory and compliance services. Mr. Gu received his Master of Science in Accounting from Lees Metropolitan University in 2004 and his Master of Business Administration from University of Newcastle upon Tyne in 2001. He got his bachelor degree in tourism from Shanghai University in 1995.



**Mr. Lianzheng Zhang** has been a director since October 2007. Mr. Zhang currently serves as Pluralism Director at the Heilongjiang provincial Base of Research and Experiment in Polymer Science & Technology since July 1990. Mr. Zhang has also been appointed as a People's Representative during the 9th (1998) and 10th (2003) National People's Congress of the PRC for his extraordinary achievement in Polymer Science and Technology. Mr. Zhang received a Bachelor's Degree in Organic Chemistry from the Heilongjiang University and Master's Degree in Polymer Chemistry at the Jilin University. Mr. Zhang was also a visiting scholar at the University of Bradford.

**Mr. Xiqun Yu** has been our chairman and chief executive officer since the organization of our subsidiaries in 2001. He has more than 20 years of experience in senior management with several Northern PRC-based enterprises. He was responsible for marketing, strategic planning and designing for many of these corporations. Mr. Yu previously served as the chief executive officer of RETONG.COM, and chairman of Harbin Zhonghelida Technology Corporation, Heilongjiang Retong Advertising Co., Ltd. and Heilongjiang Wantong Telecommunication Project Co., Ltd. Mr. Yu is a member of the Council of China Harbin Advertising Association and is a Director of the China Internet Network Association. Mr. Yu received a degree in Business Administration from the Harbin University of Science and Technology in 1989.

The Board believes that each of the Company's director-nominees is highly qualified to serve as a member of the Board. Each of the director-nominees has contributed to the mix of skills, core competencies and qualifications of the Board. When evaluating candidates for election to the Board, the Nominating Committee seeks candidates with certain qualities that it believes are important, including integrity, an objective perspective, good judgment, and leadership skills. Our director-nominees are highly educated and have diverse backgrounds and talents and extensive track records of success in what we believe are highly relevant positions.

### *Term of Office*

The directors elected will serve until the annual meeting of stockholders in 2014 and until their respective successors have been elected and have qualified, or until their earlier resignation, removal or death.

### **Vote Required and Board of Directors' Recommendation**

The affirmative vote of the holders of a plurality of all of the outstanding Common Stock of the Company is required for approval of this proposal.

**The Board recommends a vote FOR the election of all the above director nominees.**

### **DIRECTORS AND OFFICERS**

Set forth below is certain information regarding our directors and executive officers. All officers serve at the pleasure of the Board.

The following table sets forth certain information concerning our current directors and executive officers:

Name	Age	Position
Xiqun Yu	45	Chairman of the board, Chief Executive Officer, president and director
Cloris Li	31	Chief Financial Officer

Liansheng Zhang <sup>1,2,3</sup>	71	Director
Yizhao Zhang <sup>1,2,3</sup>	43	Director
Xiaohua Gu <sup>1,2,3</sup>	39	Director

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1 Member of the Audit Committee.

2 Member of the Compensation Committee.

3 Member of the Nominating Committee

Information regarding the principal occupations of Liansheng Zhang, Xiqun Yu and Xiaohua Gu are set forth above under the heading “Nominees for Directors.” Information regarding the principal occupation of Yizhao Zhang, our director, is set forth below.

**Mr. Yizhao Zhang** has been our independent director since June 2009. He is currently assisting some Chinese companies for their preparation of oversea listing, and also an independent director of Kaisa Group Holdings Ltd. (HK: 1638), China Green Agriculture Inc. (NYSE: CGA) and China Carbon Graphite, Inc. (OTC QB: CHGI) respectively. Mr. Zhang has over 16 years of experience in accounting and internal control, corporate finance, and portfolio management. Previously, Mr. Zhang held senior positions in Universal Travel Group (OTC Pink: UTRA), Energroups Holdings Corporation (OTC Pink: ENHD), Shengtai Pharmaceutical Inc. (OTC BB: SGTI), Chinawe Asset Management Corporation (OTC BB: CHWE), and China Natural Resources Incorporation (NASDAQ CM: CHNR). Mr. Zhang also had experiences in portfolio management and asset trading in Guangdong South Financial Services Corporation from 1993 to 1999. He is a certified public accountant of the state of Delaware, and a member of the American Certified Accountants (AICPA). Mr. Zhang graduated with a bachelor’s degree in economics from Fudan University, Shanghai in 1992 and received an MBA degree with financial analysis and accounting concentrations from the State University of New York at Buffalo in 2003.

Save as otherwise reported above, none of our directors hold directorships in other reporting companies and registered investment companies at any time during the past five years.

There are no family relationships among our directors or officers.

### ***Involvement in Certain Legal Proceedings***

To our knowledge, during the last ten years, none of our directors and executive officers (including those of our subsidiaries) has:

Had a bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time.

Been convicted in a criminal proceeding or been subject to a pending criminal proceeding, excluding traffic violations and other minor offenses.

Been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities.

Been found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission (the "SEC"), or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

Been the subject to, or a party to, any sanction or order, not subsequently reverse, suspended or vacated, of any self-regulatory organization, any registered entity, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

### **Legal Proceedings**

The Company was named as a defendant in two putative class action lawsuits filed in the U.S. District Court for the Central District of California, but has now entered into an agreement (subject to court approval) to settle both cases. 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) (AGR<sub>x</sub>), was filed on December 28, 2010. On March 2, 2011, the two actions were consolidated as *In re China Education Alliance, Inc. Securities Litigation*, No. 10-cv-09239 (CAS) (JC<sub>x</sub>) (C.D. Cal.). The most recent complaint, like the earlier ones, alleges that the Company and certain of its past and present officers and directors 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 the Company's public filings between 2008 and 2010 and in an investor conference call in December 2010. The complaint also asserts claims under Section 20(a) of the Securities Exchange Act of 1934 against the individual defendants as persons who allegedly controlled the Company during the time the allegedly false and misleading statements and omissions were made. The Company and the individual defendants have denied these allegations. The Court denied the Company's motion to dismiss an earlier version of the complaint on October 11, 2011, but subsequently dismissed one of the company's directors. On November 19, 2012, the Court granted preliminary approval to the parties' settlement agreement and scheduled a hearing for March 11, 2013 to consider whether to grant final approval to the settlement. If approved, the settlement would result in the resolution of all class action claims against the Company and its directors and officers, in exchange for a payment by the Company's insurer, which will be distributed to those who bought shares of the Company's stock during the relevant period. No payment by the Company will be required.

In addition, a derivative lawsuit, *Padnos v. Yu, et al.*, No. 11-cv-08973 (CAS) (JCx), was filed on October 28, 2011 in the U.S. District Court for the Central District of California against certain of the Company's past and present officers and directors. The lawsuit, filed nominally on behalf of the Company, alleged breaches of fiduciary duties based on facts similar to those alleged in the class action. That case has also been settled, and the Court granted final approval to the parties' settlement agreement on October 15, 2012.

## **TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL PERSONS**

Related parties can include any of our directors or executive officers, certain of our stockholders and their immediate family members. A conflict of interest occurs when an individual's private interest interferes, or appears to interfere, in any way with the interests of the company as a whole. Our code of ethics establishes requirements of our officers regarding conflicts of interest. Any violation of our code of ethics must be reported to the Company's chief operating officer or any member of the Company's Board.

Xiqun Yu, Chairman and Chief Executive Officer of the Company, has extended a loan to us in the amount of \$131,650 for the fiscal year ended December 31, 2011. The loan is unsecured, interest-free and payable on demand. As of January 14, 2013, the outstanding balance of the loan was \$131,650.

### ***Procedures for Approval of Related Party Transactions***

Our Board is charged with reviewing and approving all potential related party transactions. All such related party transactions must then be reported under applicable SEC rules. We have not adopted other procedures for review, or standards for approval, of such transactions, but instead review them on a case-by-case basis.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our Common Stock and other equity securities, on Form 3, 4 and 5 respectively. Executive officers, directors and greater than 10% stockholders are required by the SEC regulations to furnish our company with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of such reports received by us and on written representations by our officers and directors regarding their compliance with the applicable reporting requirements under Section 16(a) of the Exchange Act, we believe that, with respect to the fiscal year ended December 31, 2011, our officers and directors, and all of the persons known to us to own more than 10% of our Common Stock, filed all required reports on a timely basis.

## **DIRECTOR INDEPENDENCE**

Our Board is currently comprised of a majority of independent directors, as such term is defined by the rules of the New York Stock Exchange, and such independent directors are Yizhao Zhang, Xiaohua Gu and Liansheng Zhang. James Hsu, our former director who resigned on June 15, 2011, also qualified as independent director under the rules of the New York Stock Exchange.

## **MEETINGS AND COMMITTEES OF THE BOARD; ANNUAL MEETING ATTENDANCE**

Our Board has three committees, the Audit Committee, the Compensation Committee and the Nominating Committee. The Audit Committee and Compensation Committee were established in October 2007, and the Nominating Committee was established in June 2009. Prior to October 2007, our entire Board acted as the Audit and Compensation Committee for the purpose of overseeing the accounting and financial reporting processes, and audits of our financial statements.

### **Audit Committee and Audit Committee Financial Expert**

Our Board established an Audit Committee in October 2007. The Audit Committee is responsible for (i) recommending independent accountants to the Board, (ii) reviewing our financial statements with management and the independent accountants, (iii) making an appraisal of our audit effort and the effectiveness of our financial policies and practices and (iv) consulting with management and our independent accountants with regard to the adequacy of internal accounting controls. Our Audit Committee members are Yizhao Zhang (Chairman), Xiaohua Gu and Liansheng Zhang.

Our Board has determined that Yizhao Zhang is our Audit Committee “financial expert” as defined by Item 401(h) of Regulation S-K as promulgated by the SEC. The directors who serve on the Audit Committee are “independent” directors based on the definition of independence in the listing standards of the NYSE. Our Board has adopted a written charter for the Audit Committee. The Charter is available on our website at <http://www.chinaeducationalliance.com/Governance.jsp>.

### **Compensation Committee**

Our Board established a Compensation Committee in October 2007.

The Compensation Committee of the Board is responsible for (i) determining the general compensation policies, (ii) establishing compensation plans, (iii) determining senior management compensation and (iv) administering our stock option plans. The members of the Compensation Committee currently are Liansheng Zhang (Chairman), Yizhao Zhang and Xiaohua Gu. The members of our Compensation Committee or their affiliates did not provide additional service to the Company or its affiliates in an amount in excess of \$120,000 during the Company’s fiscal year ended December 31, 2011.

Our Board has adopted a written Compensation Committee charter. The charter is available on our website at <http://www.chinaeducationalliance.com/Governance.jsp>. The directors who serve on the Compensation Committee are “independent” directors based on the definition of independence in the listing standards of the NYSE.

### **Nominating Committee**



Our Board established a Nominating Committee in June 2009.

The purpose of the Nominating Committee of the Board is to assist the Board in identifying and recruiting qualified individuals to become board members and select director nominees to be presented for board and/or stockholder approval. The Nominating Committee will be involved in evaluating the desirability of and recommendation to the board of any changes in the size and composition of the board, and evaluation of and successor planning for the chief executive officer and other executive officers. The qualifications of any candidate for director will be subject to the same extensive general and specific criteria applicable to director candidates generally. The members of the Nominating Committee currently are Liansheng Zhang (Chairman), Yizhao Zhang and Xiaohua Gu.

The directors who serve on the Nominating Committee are “independent” directors based on the definition of independence in the listing standards of the NYSE. The Nominating Committee has a written charter. The charter is available on our website at <http://www.chinaeducationalliance.com/Governance.jsp>. The Nominating Committee will consider qualified director candidates recommended by stockholders if such recommendations for director are submitted in writing to our Secretary at 58 Heng Shan Road, Kun Lun Shopping Mall, Harbin, People’s Republic of China 150090, provided such recommendation has been made in accordance with the relevant by-laws.

At this time, no additional specific procedures to propose a candidate for consideration by the Nominating Committee, nor any minimum criteria for consideration of a proposed nomination to the board, have been adopted.

## **Board Meetings**

The Board and its committees held the following number of meetings during the fiscal year of 2011:

Board of Directors	3
Audit Committee	4
Compensation Committee	0
Nominating Committee	1

The meetings include meetings that were held by means of a conference telephone call, but do not include actions taken by unanimous written consent, which amounted to one such action.

Each director attended at least 75% of the total number of meetings of the board and those committees on which he served during the year.

Our non-management directors did not meet in executive session during 2011.

## **BOARD LEADERSHIP STRUCTURE AND ROLE IN RISK OVERSIGHT**

Xiqun Yu is our Chairman and Chief Executive Officer. We have three independent directors. We do not have a lead independent director. Our Board has three standing committees, each of which is comprised solely of independent directors with a committee chair. The Board believes that the Company's Chief Executive Officer is best situated to serve as Chairman of the Board because he is the director most familiar with our business and industry and the director most capable of identifying strategic priorities and executing our business strategy. In addition, having a single leader eliminates the potential for confusion and provides clear leadership for the Company. We believe that this leadership structure has served the Company well.

Our Board has overall responsibility for risk oversight. The Board has delegated responsibility for the oversight of specific risks to Board committees as follows:

- The Audit Committee oversees the Company's risk policies and processes relating to the financial statements and financial reporting processes, as well as key credit risks, liquidity risks, market risks and compliance, and the guidelines, policies and processes for monitoring and mitigating those risks.

- The Nominating Committee oversees risks related to the company's governance structure and processes.

Our Board is responsible to approve all related party transactions according to our Code of Ethics. We have not adopted written policies and procedures specifically for related person transactions.

## **STOCKHOLDER COMMUNICATIONS**

Stockholders who wish to communicate with the Board or with specified members of the Board should do so by sending any communication to of China Education Alliance, Inc., 58 Heng Shan Road, Kun Lun Shopping Mall, Harbin, People's Republic of China 150090, Attention: Chief Executive Officer.

Any such communication should state the number of shares beneficially owned by the stockholder making the communication. Our Chief Executive Officer will forward such communication to the full Board or to any individual member or members of the Board to whom the communication is directed, unless the communication is unduly hostile, threatening, illegal or similarly inappropriate, in which case the Chief Executive Officer has the authority to discard the communication or take appropriate legal action regarding the communication.

**CODE OF ETHICS**

We have adopted a Code of Ethics, currently available on our website.

**BOARD OF DIRECTORS COMPENSATION***Board Compensation*

The following table sets forth the compensation received by our directors in fiscal year of 2011 in their capacity as directors:

Name and Principal Position	Fee earned or paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Xiqun Yu Chief Executive Officer and director	—	—	—	—	—	—	—
James Hsu Director	6,667	—	—	—	—	—	6,667
Xiaohua Gu Director	7,500	—	—	—	—	—	7,500
Liansheng Zhang Director	5,000	—	—	—	—	—	5,000