

AL International Inc. and Subsidiaries
Consolidated Balance Sheets - Unaudited

(In thousands, except share amounts)

	As of,	
	June 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,109	\$ 1,390
Accounts receivable, due from factoring company	666	937
Inventory	4,073	4,981
Prepaid expenses and other current assets	586	591
Total current assets	8,434	7,899
Property and equipment, net	1,353	916
Intangible assets, net	9,869	10,398
Goodwill	5,154	5,154
	\$ 24,810	\$ 24,367
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 3,321	\$ 2,948
Accrued expenses	3,704	2,848
Other current liabilities	1,078	424
Due to factoring company	307	743
Notes payable, current portion	779	712
Contingent acquisition debt, current portion	283	325
Total current liabilities	9,472	8,000
Other liabilities	312	138
Deferred tax liability	739	716
Notes payable, less current portion	1,765	2,090
Contingent acquisition debt, less current portion	4,424	4,345
Total liabilities	16,712	15,289
Equity		
AL International, Inc. stockholders' equity:		
Convertible Preferred Stock, \$0.001 par value: 1,000,000 shares authorized, 211,135 and 271,135 shares issued and outstanding at at March 31, 2012 and December 31, 2011, respectively	-	-
Common Stock, \$0.001 par value: 600,000,000 share authorized; 385,573,848 and 385,237,309 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	386	385
Additional paid in capital	163,747	163,584
Accumulated deficit	(155,969)	(154,841)
Accumulated other comprehensive loss	(133)	(113)
Total AL International, Inc. stockholders' equity (deficit)	8,031	9,015
Noncontrolling interest	67	63
Total equity (deficit)	8,098	9,078
	\$ 24,810	\$ 24,367

AL International Inc. and Subsidiaries
Consolidated Statements of Operations - Unaudited

(In thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 18,940	\$ 8,563	\$ 34,878	\$ 16,267
Cost of revenues	8,192	3,269	15,107	6,174
Gross profit	10,748	5,294	19,771	10,093
Operating expenses				
Distributor compensation	7,926	3,939	14,478	7,499
Sales and marketing	706	407	1,770	802
General and administrative	2,111	940	4,085	1,893
Impairment of goodwill	-	-	-	-
Total operating expenses	10,743	5,286	20,333	10,194
Operating income (loss)	5	8	(562)	(101)
Interest expense, net	(245)	(77)	(521)	(154)
Loss before income taxes	(240)	(69)	(1,083)	(255)
Income tax provision	21	27	41	47
Net loss	(261)	(96)	(1,124)	(302)
Net income (loss) attributable to noncontrolling interest	(7)	-	4	-
Net loss attributable to AL International, Inc.	(254)	(96)	(1,128)	(302)
Preferred stock dividends	5	-	9	-
Net loss available to common stockholders	<u>\$ (259)</u>	<u>\$ (96)</u>	<u>\$ (1,137)</u>	<u>\$ (302)</u>
Net loss per share, basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average shares outstanding, basic and diluted	<u>389,858,002</u>	<u>\$ 280,000,000</u>	<u>385,484,943</u>	<u>280,000,000</u>
Earnings before interest, taxes, depreciation and amortization	<u>\$ 472</u>	<u>\$ 175</u>	<u>\$ 338</u>	<u>\$ 233</u>

AL International Inc. and Subsidiaries
Consolidated Statements of Stockholders Equity - Unaudited

(In thousands, except share amounts)

	Preferred Stock		Common Stock		Noncontrolling Interest	Additional Paid-in Capital	Other Comprehensive Income	Acumulated Deficit	Total
	Shares	Amount	Shares	Amount					
For the Six Months Ended June 30, 2011:									
Balance at January 1, 2011	-	\$ -	280,000,000	\$ 280	0	\$ 42	\$ (106)	\$ (2,586)	\$ (2,370)
Debt forgiveness - related party		-		-	-	2,792	-	-	2,792
Other comprehensive gain, foreign currency translation adjustment		-		-	-	-	17	-	17
Net loss		-		-	-	-	-	(302)	(302)
Balance at June 30, 2011	-	\$ -	280,000,000	\$ 280	0	\$ 2,834	\$ (89)	\$ (2,888)	\$ 137
For the Six Months Ended June 30, 2012:									
Balance at January 1, 2012	271,135	\$ -	385,237,309	\$ 385	63	\$ 163,584	\$ (113)	\$ (154,841)	\$ 9,078
Issuance of common stock pursuant to the exercise of stock warrants		-	180,769	1	-	(1)	-	-	-
Issuance of common stock pursuant to the conversion of convertible preferred stock and accrued interest	(60,000)	-	155,770	-	-	19	-	-	19
Stock based compensation expense		-		-	-	154	-	-	154
Other comprehensive gain, foreign currency translation adjustment		-		-	-	-	(20)	-	(20)
Dividends on preferred stock		-		-	-	(9)	-	-	(9)
Net loss		-		-	4	-	-	(1,128)	(1,124)
Balance at June 30, 2012	211,135	\$ -	385,573,848	\$ 386	67	\$ 163,747	\$ (133)	\$ (155,969)	\$ 8,098

AL International Inc. and Subsidiaries
Consolidated Statements of Cash Flows - Unaudited

((In thousands, except share amounts))

	Six Months Ended June 30,	
	2012	2011
Cash Flows from Operating Activities:		
Net loss	\$ (1,124)	\$ (302)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	900	334
Stock based compensation expense	154	-
Amortization of debt discount	40	53
Changes in operating assets and liabilities net of effect from business combinations:		
Accounts receivable	271	119
Inventories	908	(669)
Prepaid expense and other current assets	4	14
Accounts payable	373	1,332
Accrued expenses and other liabilities	1,695	(637)
Deferred tax liability	23	23
Net Cash Provided by Operating Activities	3,244	267
Cash Flows from Investing Activities:		
Purchases of property and equipment	(582)	(27)
Net Cash Provided by (Used in) Investing Activities	(582)	(27)
Cash Flows from Financing Activities:		
Payments from factoring company, net	(436)	-
Payments of notes payable	(298)	(119)
Payments of contingent acquisition debt	(190)	(76)
Net Cash Used in Financing Activities	(924)	(195)
Foreign Currency Effect on cash	(19)	18
Net increase in cash and cash equivalents	1,719	63
Cash and Cash Equivalents, beginning of period	1,390	599
Cash and Cash Equivalents, end of period	\$ 3,109	\$ 662

Cash paid during the period for:

Interest	\$ 481	\$ 30
Income taxes	\$ 6	\$ 29

Non cash financing activities:

During the six months ended June 30, 2011, related party debt of approximately \$2,221 plus accrued unpaid interest of approximately \$571 was forgiven and recognized as a capital contribution.

During the six months ended June 30, 2012, the Company issued 120,000 shares of common stock for conversion of 60,000 shares of preferred stock and issued 35,770 shares of common stock in payment of approximately \$19 of accrued dividends on preferred stock, of which approximately \$1 was accrued in 2012.