

**AL International, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**

(In thousands, except share amounts)

(Unaudited)

	As of,	
	<u>September 30, 2012</u>	<u>December 31, 2011</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,020	\$ 1,390
Accounts receivable, due from factoring company	914	937
Notes receivable, related party	432	-
Inventory	3,887	4,981
Prepaid expenses and other current assets	524	591
Total current assets	<u>9,777</u>	<u>7,899</u>
Property and equipment, net	1,324	916
Intangible assets, net	8,932	10,398
Goodwill	5,154	5,154
	<u><b>\$ 25,187</b></u>	<u><b>\$ 24,367</b></u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 2,625	\$ 2,948
Accrued expenses	4,700	2,848
Other current liabilities	263	424
Due to factoring company	521	743
Notes payable, current portion	753	712
Contingent acquisition debt, current portion	249	325
Total current liabilities	<u>9,111</u>	<u>8,000</u>
Other liabilities	289	138
Deferred tax liability	750	716
Notes payable, less current portion	1,687	2,090
Contingent acquisition debt, less current portion	<u>3,832</u>	<u>4,345</u>
Total liabilities	15,669	15,289
<b>Equity</b>		
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 September 30, 2012 and December 31, 2011, respectively	-	-
Common Stock, \$0.001 par value: 600,000,000 share authorized; 389,674,848 and 385,237,309 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	390	385
Additional paid in capital	164,717	163,584
Accumulated deficit	(155,447)	(154,841)
Accumulated other comprehensive loss	(134)	(113)
Total AL International, Inc. stockholders' equity (deficit)	<u>9,526</u>	<u>9,015</u>
Noncontrolling interest	(8)	63
Total equity (deficit)	<u>9,518</u>	<u>9,078</u>
	<u><b>\$ 25,187</b></u>	<u><b>\$ 24,367</b></u>

**AL International, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**

(In thousands, except share and per share amounts)

(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenues	\$ 20,604	\$ 10,418	\$ 56,011	\$ 26,869
Cost of revenues	8,145	3,721	23,269	9,964
Gross profit	12,459	6,697	32,742	16,905
Operating expenses				
Distributor compensation	8,724	4,301	23,459	11,855
Sales and marketing	738	480	2,508	1,292
General and administrative	2,436	1,739	6,519	3,670
Impairment of goodwill	-	151,432	-	151,432
Total operating expenses	11,898	157,952	32,486	168,249
Operating income (loss)	561	(151,255)	256	(151,344)
Interest expense, net	(250)	(58)	(771)	(212)
Income (loss) before income taxes	311	(151,313)	(515)	(151,556)
Income tax provision	129	121	162	168
Net income (loss)	182	(151,434)	(677)	(151,724)
Net income (loss) attributable to noncontrolling interest	(67)	41	(71)	41
Net income (loss) attributable to AL International, Inc.	249	(151,475)	(606)	(151,765)
Preferred stock dividends	4	11	13	11
Net income (loss) available to common stockholders	<b>\$ 245</b>	<b>\$ (151,486)</b>	<b>\$ (619)</b>	<b>\$ (151,776)</b>
Net income (loss) per share, basic and diluted	<b>\$ 0.00</b>	<b>\$ (0.41)</b>	<b>\$ (0.00)</b>	<b>\$ (0.49)</b>
Weighted average shares outstanding, basic and diluted	<b>388,725,930</b>	<b>370,563,031</b>	<b>386,573,157</b>	<b>310,519,410</b>
Earnings before interest, taxes, depreciation and amortization	<b>\$ 1,028</b>	<b>\$ (150,932)</b>	<b>\$ 1,623</b>	<b>\$ (150,686)</b>

**AL International, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders Equity**

(In thousands, except share amounts)

(Unaudited)

	Preferred Stock		Common Stock		Noncontrolling	Additional	Other	Acumulated	Total
	Shares	Amount	Shares	Amount	Interest	Paid-in Capital	Comprehensive Income	Deficit	
<b>For the Nine Months Ended September 30, 2011:</b>									
Balance at January 1, 2011	-	\$ -	280,000,000	\$ 280	0	\$ 42	\$ (106)	\$ (2,586)	\$ (2,370)
Issuance of preferred and common stock in connection with reverse merger	401,135	-	102,640,775	103	-	160,017	-	-	160,120
Debt forgiveness - related party		-		-	-	2,792	-	-	2,792
Issuance of common stock pursuant to the exercise of stock warrants	-	-	265,000	-	-	97	-	-	97
Issuance of common stock pursuant to the conversion of convertible preferred stock and accrued dividends	(25,000)	-	100,805	-	-	7	-	-	7
Other comprehensive gain, foreign currency translation adjustment	-	-	-	-	-	-	(4)	-	(4)
Dividends on preferred stock	-	-	-	-	-	(11)	-	-	(11)
Equity of noncontrolling interest	-	-	-	-	3	-	-	-	3
Net loss	-	-	-	-	41	-	-	(151,765)	(151,724)
Balance at September 30, 2011	<u>376,135</u>	<u>\$ -</u>	<u>383,006,580</u>	<u>\$ 383</u>	<u>44</u>	<u>\$ 162,944</u>	<u>\$ (110)</u>	<u>\$ (154,351)</u>	<u>\$ 8,910</u>
<b>For the Nine Months Ended September 30, 2012:</b>									
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 exercise of stock options	-	-	1,000	-	-	-	-	-	-
Issuance of common stock pursuant to the conversion of convertible preferred stock and accrued interest	(60,000)	-	155,770	-	-	19	-	-	19
Issuance of common stock for cash and note receivable	-	-	4,100,000	4	-	816	-	-	820
Stock based compensation expense	-	-	-	-	-	312	-	-	312
Other comprehensive gain, foreign currency translation adjustment	-	-	-	-	-	-	(21)	-	(21)
Dividends on preferred stock	-	-	-	-	-	(13)	-	-	(13)
Equity of noncontrolling interest	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	(71)	-	-	(606)	(677)
Balance at September 30, 2012	<u>211,135</u>	<u>\$ -</u>	<u>389,674,848</u>	<u>\$ 390</u>	<u>(8)</u>	<u>\$ 164,717</u>	<u>\$ (134)</u>	<u>\$ (155,447)</u>	<u>\$ 9,518</u>

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

((In thousands, except share amounts))

(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (677)	\$ (151,724)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,367	658
Impairment of goodwill	-	151,432
Stock based compensation expense	312	-
Amortization of debt discount	59	77
Loss on disposal of assets	54	-
Changes in operating assets and liabilities net of effect from business combinations:		
Accounts receivable	23	105
Note receivable, related party	(312)	-
Inventories	1,094	(1,896)
Prepaid expense and other current assets	67	129
Accounts payable	(323)	127
Accrued expenses and other liabilities	1,849	808
Deferred tax liability	34	34
<b>Net Cash Provided by (Used In) Operating Activities</b>	<b>3,547</b>	<b>(250)</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(646)	(163)
Cash acquired in business combinations, net of cash paid	(15)	284
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(661)</b>	<b>121</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from the sale of common stock	700	-
Payments from factoring company, net	(222)	10
Payments of notes payable	(421)	(243)
Payments of contingent acquisition debt	(292)	(142)
Payment to establish noncontrolling interest	-	(3)
Proceeds from exercise of common stock warrants	-	97
<b>Net Cash Used in Financing Activities</b>	<b>(235)</b>	<b>(281)</b>
<b>Foreign Currency Effect on cash</b>	<b>(21)</b>	<b>(3)</b>
Net increase in cash and cash equivalents	<b>2,630</b>	<b>(413)</b>
<b>Cash and Cash Equivalents, beginning of period</b>	<b>1,390</b>	<b>599</b>
<b>Cash and Cash Equivalents, end of period</b>	<b>\$ 4,020</b>	<b>\$ 186</b>

Cash paid during the period for:

Interest	\$ 560	\$ 57
Income taxes	\$ 12	\$ 101

Non cash financing activities:

During the nine months ended September 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 nine months ended September 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.