AL International, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share amounts)

(Unaudited)

September 30, 2012 December 31, 201 ASSETS Current Assets: - Cash and each equivalents \$ 4,020 \$ 1,394 Accounts receivable, due from factoring company 412 - Notes receivable, related party 432 - Inventory 3.887 4.98 Prepried expenses and other current assets 5.24 .99 Total current assets .9.777 7.899 Property and equipment, net 1,324 .910 Intangible assets, net .8.932 10.391 Goodwill \$ 5.154 \$ 5.154 Accrede expenses .4.700 .2.4436 Other oursent liabilities 2.63 4 2.90 Accrede expenses .4.700 .2.4436 Other current liabilities 2.63 1.744 Notes payable, current portion .753 .714 Continger acquisition debt, current portion .750 .714 Notes payable, current liabilities .280 .138 Det fracting company .521 .744 <		As of,						
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Image: style="text-align: style="text-align: center;">\$ 25,187\$ 24,36LIABILITIES AND STOCKHOLDERS EQUITYCurrent Liabilites: Accrued expensesAccrued expenses $4,700$ 2,844Other current liabilities263422Due to factoring company521743Notes payable, current portion753713Contingent acquisition debt, current portion249322Total current liabilities289133Deferred tax liability750710Notes payable, less current portion1,6872.090Contingent acquisition debt, less current portion1,6872.090Contingent acquisition debt, less current portion15,66915,286Equity AL International, Inc. stockholders' equity:Convertible Preferred Stock, \$0.001 par value: 1,000,000 shares authorized, 3211,135 and 271,135 shares issued and outstanding at a September 30, 2012 and December 31, 2011, respectivelyAdditional paid in capital(164,717163,584(163,584Accumulated deficit(154,477)(154,844(1154,847)Accumulated deficit(134)(1134)(1134)Total AL International, Inc. stockholders' equity (deficit)9,52869,001Noncontrolling interest(8)66Total AL International, Inc. stockholders' equity (deficit)9,52869,013Noncontrolling interest(8)66Total AL International, Inc. stockholders' equity (deficit)9,5189,014 <td>Intangible assets, net</td> <td></td> <td>8,932</td> <td></td> <td>10,398</td>	Intangible assets, net		8,932		10,398			
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shares issued and outstanding at at September 30, 2012 and December 31, 2011, respectivelyCommon Stock, \$0.001 par value: 600,000,000 share authorized; 389,674,848 and 385,237,309shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively390383Additional paid in capital164,717163,584Accumulated deficit(155,447)(154,844)Accumulated other comprehensive loss(134)(113)Total AL International, Inc. stockholders' equity (deficit)9,5269,014Noncontrolling interest(8)63Total equity (deficit)9,5189,078	AL International, Inc. stockholders' equity:							
Common Stock, \$0.001 par value: 600,000,000 share authorized; 389,674,848 and 385,237,309390385shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively390385Additional paid in capital164,717163,584Accumulated deficit(155,447)(154,844)Accumulated other comprehensive loss(134)(113)Total AL International, Inc. stockholders' equity (deficit)9,5269,015Noncontrolling interest(8)63Total equity (deficit)9,5189,075	Convertible Preferred Stock, \$0.001 par value: 1,000,000 shares authorized, 211,135 and 271,135							
shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively390383Additional paid in capital164,717163,584Accumulated deficit(155,447)(154,844)Accumulated other comprehensive loss(134)(112)Total AL International, Inc. stockholders' equity (deficit)9,5269,012Noncontrolling interest(8)62Total equity (deficit)9,5189,078	shares issued and outstanding at at September 30, 2012 and December 31, 2011, respectively		-		-			
Additional paid in capital164,717163,584Accumulated deficit(155,447)(154,844)Accumulated other comprehensive loss(134)(112)Total AL International, Inc. stockholders' equity (deficit)9,5269,014Noncontrolling interest(8)66Total equity (deficit)9,5189,078	Common Stock, \$0.001 par value: 600,000,000 share authorized; 389,674,848 and 385,237,309							
Accumulated deficit(155,447)(154,847)Accumulated other comprehensive loss(134)(1137)Total AL International, Inc. stockholders' equity (deficit)9,5269,015Noncontrolling interest(8)65Total equity (deficit)9,5189,075	shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively		390		385			
Accumulated other comprehensive loss(134)(113Total AL International, Inc. stockholders' equity (deficit)9,5269,013Noncontrolling interest(8)63Total equity (deficit)9,5189,078	Additional paid in capital		164,717		163,584			
Total AL International, Inc. stockholders' equity (deficit)9,5269,015Noncontrolling interest(8)65Total equity (deficit)9,5189,078	Accumulated deficit		(155,447)		(154,841)			
Noncontrolling interest(8)65Total equity (deficit)9,5189,078	Accumulated other comprehensive loss		(134)		(113)			
Total equity (deficit) 9,518 9,078	Total AL International, Inc. stockholders' equity (deficit)		9,526		9,015			
	Noncontrolling interest		(8)		63			
¢ 25.197 ¢ 24.277	Total equity (deficit)		9,518		9,078			
$\overline{\mathbf{b}}$ 25,187 $\overline{\mathbf{b}}$ 24,30.		\$	25,187	\$	24,367			

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

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended September 30			eptember 30,	Ni	ine Months End	led September 30,			
		2012		2011		2012		2011		
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 adminstrative		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) attibutable to AL International, Inc.		249		(151,475)		(606)		(151,765)		
Preferred stock dividends		4		11		13		11		
Net income (loss) available to common stockholders	\$	245	\$	(151,486)	\$	(619)	\$	(151,776)		
Net income (loss) per share, basic and diluted	\$	0.00	\$	(0.41)	\$	(0.00)	\$	(0.49)		
Weighted average shares outstanding, basic and diluted		388,725,930		370,563,031		386,573,157		310,519,410		
Earnings before interest, taxes, depreciation and amortization	\$	1,028	\$	(150,932)	\$	1,623	\$	(150,686)		

AL International, Inc. and Subsidiaries Condensed Consolidated Statements of Stockholders Equity (In thousands, except share amounts)

(Unaudited)

	Preferred Stock		Common Stock		Nono	Noncontrolling		Additional		Other	Acumulated			
	Shares	Amount	Shares	Amount		terest		Paid-in Capital	Con	nprehensive Income	Defic			Total
For the Nine Months Ended September 30, 2011:														
Balance at January 1, 2011	_	\$-	280,000,000	\$	80	0	\$	42	\$	(106)	\$	(2,586)	\$	(2,370)
Issuance of preferred and common stock	_	φ -	200,000,000	ψ	00	U	Ψ	72	Ψ	(100)	Ψ	(2,500)	Ψ	(2,370)
in connection with reverse merger	401,135	_	102,640,775	1	03	_		160,017		_		_		160,120
Debt forgiveness - related party	101,100	_	102,010,770	-		_		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			,											2.1
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	376,135	\$ -	383,006,580	\$	83	44	\$	162,944	\$	(110)	\$ ((154,351)	\$	8,910
For the Nine Months Ended September 30, 2012:														
Balance at January 1, 2012	271,135	\$ -	385,237,309	\$	85	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	211,135	\$-	389,674,848	\$	90	(8)	\$	164,717	\$	(134)	\$	(155,447)	\$	9,518

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

((In thousands, except share amounts)

(Unaudited)

	Nin	Nine Months Ended Septem				
		2012		2011		
Cash Flows from Operating Activities:						
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		
Net Cash Provided by (Used In) Operating Activities		3,547		(250)		
Cash Flows from Investing Activities:						
Purchases of property and equipment		(646)		(163)		
Cash acquired in business combinations, net of cash paid		(15)		284		
Net Cash (Used in) Provided by Investing Activities		(661)		121		
Cash Flows from Financing Activities:						
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 noncontolling interest		(_>_)		(3)		
Proceeds from exercise of common stock warrants		-		97		
Net Cash Used in Financing Activities		(235)		(281)		
Foreign Currency Effect on cash		(21)		(3)		
Net increase in cash and cash equivalents		2,630		(413)		
Cash and Cash Equivalents, beginning of period		1,390		599		
Cash and Cash Equivalents, seguring of period	\$	4,020	\$	186		
Cash paid during the period for:						
Interest	\$	560	\$	57		
Income taxes	\$	12	\$	101		
Non cash financing activities:	Ψ	12	Ψ	101		
Tion 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.