

AL International Inc. and Subsidiaries
Consolidated Balance Sheets - Unaudited

(In thousands, except share amounts)

	As of,	
	<u>March 31, 2012</u>	<u>December 31, 2011</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,199	\$ 1,390
Accounts receivable, due from factoring company	806	937
Inventory	4,715	4,981
Prepaid expenses and other current assets	659	591
Total current assets	<u>7,379</u>	<u>7,899</u>
Property and equipment, net	900	916
Intangible assets, net	10,024	10,398
Goodwill	5,154	5,154
	<u>\$ 23,457</u>	<u>\$ 24,367</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,749	\$ 2,948
Accrued expenses	3,585	2,848
Other current liabilities	222	424
Due to factoring company	572	743
Notes payable, current portion	778	712
Contingent acquisition debt, current portion	240	325
Total current liabilities	<u>8,146</u>	<u>8,000</u>
Other liabilities	122	138
Deferred tax liability	728	716
Related party notes payable	-	-
Notes payable, less current portion	1,878	2,090
Contingent acquisition debt, less current portion	4,356	4,345
Total liabilities	<u>15,230</u>	<u>15,289</u>
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	163,597	163,584
Accumulated deficit	(155,715)	(154,841)
Accumulated other comprehensive loss	(117)	(113)
Total AL International, Inc. stockholders' equity (deficit)	<u>8,151</u>	<u>9,015</u>
Noncontrolling interest	76	63
Total equity (deficit)	<u>8,227</u>	<u>9,078</u>
	<u>\$ 23,457</u>	<u>\$ 24,367</u>

AL International Inc. and Subsidiaries
Consolidated Statements of Operations - Unaudited
(In thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2012	2011
Revenues	\$ 15,938	\$ 7,704
Cost of revenues	6,915	2,905
Gross profit	9,023	4,799
Operating expenses		
Distributor compensation	6,552	3,560
Sales and marketing	1,064	395
General and administrative	1,974	953
Impairment of goodwill	-	-
Total operating expenses	9,590	4,908
Operating loss	(567)	(109)
Interest expense, net	(276)	(77)
Loss before income taxes	(843)	(186)
Income tax provision (benefit)	20	20
Net loss	(863)	(206)
Net loss attributable to noncontrolling interest	11	-
Net loss attributable to AL International, Inc.	(874)	(206)
Preferred stock dividends	4	-
Net loss available to common stockholders	\$ (878)	\$ (206)
Net loss per share, basic and diluted	\$ (0.00)	\$ (0.00)
Weighted average shares outstanding, basic and diluted	386,242,713	\$ 280,000,000
Earnings before interest, taxes, depreciation and amortization	\$ (134)	\$ 58

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

(In thousands, except share amounts)

	Preferred Stock		Common Stock		Noncontrolling	Additional	Other	Accumulated	
	Shares	Amount	Shares	Amount	Interest	Paid-in Capital	Comprehensive Income	Deficit	Total
For the Three Months Ended March 31, 2011:									
Balance at January 1, 2011	-	\$ -	280,000,000	\$ 280	0	\$ 42	\$ (106)	\$ (2,586)	\$ (2,370)
Other comprehensive gain, foreign currency translation adjustment							(8)		(8)
Net loss								(206)	(206)
Balance at March 31, 2011	-	\$ -	280,000,000	\$ 280	0	\$ 42	\$ (114)	\$ (2,792)	\$ (2,584)
For the Three Months Ended March 31, 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
Other comprehensive gain, foreign currency translation adjustment							(4)		(4)
Dividends on preferred stock						(5)			(5)
Net loss					13			(874)	(861)
Balance at March 31, 2011	211,135	\$ -	385,573,848	\$ 386	76	\$ 163,597	\$ (117)	\$ (155,715)	\$ 8,227

See accompanying notes to consolidated financial statements

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

((In thousands, except share amounts))

	Three Months Ended March 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net loss	\$ (863)	\$ (206)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	433	167
Changes in operating assets and liabilities net of effect from business combinations:		
Accounts receivable	131	119
Inventories	266	(428)
Prepaid expense and other current assets	(68)	(14)
Accounts payable	(199)	567
Accrued expenses and other liabilities	535	47
Deferred tax liability	11	11
Net Cash Provided by Operating Activities	246	263
Cash Flows from Investing Activities:		
Purchases of property and equipment	(43)	(17)
Net Cash Provided by (Used in) Investing Activities	(43)	(17)
Cash Flows from Financing Activities:		
Payments from factoring company, net	(171)	-
Payments of notes payable	(146)	(28)
Payments of contingent acquisition debt	(74)	(38)
Net Cash Used in Financing Activities	(391)	(66)
Foreign Currency Effect on cash	(3)	(7)
Net increase in cash and cash equivalents	(191)	173
Cash and Cash Equivalents, beginning of period	1,390	599
Cash and Cash Equivalents, end of period	\$ 1,199	\$ 772

Cash paid during the year for:

Interest	\$ 283	\$ 15
Income taxes	\$ 6	\$ -

Non cash financing activities:

During the three months ended March 31, 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.