

ALLIANCE DISTRIBUTORS HOLDING INC. AND SUBSIDIARY
CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share amounts)
(unaudited)

	Three Months ended December 31,		Six Months ended December 31,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
NET SALES	\$19,415	\$24,601	\$30,626	\$39,957
COST OF GOODS SOLD	<u>17,016</u>	<u>21,635</u>	<u>26,685</u>	<u>35,032</u>
GROSS PROFIT	2,399	2,966	3,941	4,925
OPERATING COSTS AND EXPENSES	<u>1,797</u>	<u>2,317</u>	<u>3,246</u>	<u>4,012</u>
INCOME FROM OPERATIONS	602	649	695	913
Interest expense	<u>156</u>	<u>114</u>	<u>245</u>	<u>203</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	446	535	450	710
Provision for income taxes	<u>180</u>	<u>207</u>	<u>180</u>	<u>267</u>
NET INCOME	<u>\$ 266</u>	<u>\$ 328</u>	<u>\$ 270</u>	<u>\$ 443</u>
Net income per share:				
Basic and diluted	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Weighted average common shares outstanding:				
Basic and Diluted	<u>52,883</u>	<u>52,883</u>	<u>52,883</u>	<u>52,883</u>

ALLIANCE DISTRIBUTORS HOLDING INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

(in thousands)

	December 31,	
	2010	2009
	Unaudited	Derived from audited financial statements
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 183	\$ 1,002
Accounts receivable-net	5,444	7,007
Inventory	10,223	6,154
Advances to suppliers	286	366
Prepaid expenses and other current assets	135	221
Deferred income taxes	<u>287</u>	<u>260</u>
Total current assets	16,558	15,010
PROPERTY AND EQUIPMENT – NET	212	352
DEFERRED INCOME TAXES	185	181
OTHER ASSETS	<u>80</u>	<u>119</u>
TOTAL	<u>\$17,035</u>	<u>\$15,662</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable – bank	\$ 7,925	\$ 5,577
Accounts payable	4,288	5,364
Accrued expenses and other current liabilities	<u>288</u>	<u>761</u>
Total current liabilities	12,501	11,702
DEFERRED LEASE OBLIGATIONS	12	37
LONG TERM OBLIGATIONS	-	5
STOCKHOLDERS' EQUITY	<u>4,522</u>	<u>3,918</u>
TOTAL	<u>\$17,035</u>	<u>\$15,662</u>
COMMON SHARES OUTSTANDING	<u>52,883</u>	<u>52,883</u>

ALLIANCE DISTRIBUTORS HOLDING INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009
(unaudited, in thousands)

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES:		
Net income	\$ 270	\$ 443
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	129	111
Provision for doubtful accounts	10	90
Equity compensation expense	18	29
Deferred income taxes	-	192
Other	(16)	9
Changes in operating assets and liabilities-net	<u>(3,908)</u>	<u>(1,361)</u>
Net cash used in operating activities	<u>(3,497)</u>	<u>(487)</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment	(5)	(50)
Acquisition of assets of Metaversal Studios	-	(25)
Note Receivable in connection with acquisition	<u>-</u>	<u>(30)</u>
Net cash used in investing activities	<u>(5)</u>	<u>(105)</u>
FINANCING ACTIVITIES:		
Proceeds from note payable, net of repayments – bank	2,794	769
Payment of long-term obligations	<u>(15)</u>	<u>(5)</u>
Net cash provided by financing activities	<u>2,779</u>	<u>764</u>
(DECREASE) INCREASE IN CASH AND EQUIVALENTS	<u>(723)</u>	<u>172</u>
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	<u>906</u>	<u>830</u>
CASH AND EQUIVALENTS, END OF PERIOD	<u>\$ 183</u>	<u>\$ 1,002</u>