ALJ REGIONAL HOLDINGS, INC.

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Annual Report for the
Fiscal Year Ended
September 30, 2013

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ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements included in this Annual Report for the twelve months ended September 30, 2013 (the "Report") regarding future financial performance, results and conditions and other statements that are not historical facts, including, among others, the statements regarding competition, the Company's intention to retain earnings for use in the Company's business operations, the Company's ability to continue to fund its operations and service its indebtedness, the adequacy of the Company's accrual for tax liabilities, management's projection of continued taxable income, and the Company's ability to offset future income against net operating loss carryovers, constitute forward-looking statements. The words "can," "could," "may," "will," "would," "plan," "future," "believes," "intends," "expects," "anticipates," "projects," "estimates," and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. Actual results or events could differ materially from those set forth or implied by such forward-looking statements and related assumptions due to certain important factors, including, without limitation, the risks set forth under the caption "Risk Factors" below, which are incorporated herein by reference. The Company is also subject to general business risks, including its success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, adverse state, federal or foreign legislation and regulation, changes in general economic factors, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters. Any forward-looking statements included in this Report are made as of the date hereof, based on information available to the Company as of the date hereof, and, the Company assumes no obligation to update any forward-looking statements.

PART A

GENERAL COMPANY INFORMATION

ALJ Regional Holdings, Inc. ("ALJ" or the "Company") has its principal mailing address at:

244 Madison Avenue, PMB 358
New York, NY 10016
Phone: (212) 883-0083

References to the "Company," "we," "us" and "our" are to the consolidated operations of ALJ, including the operations of its subsidiaries, except to the extent the context is intended to refer only to ALJ. The Company was originally incorporated in the State of Delaware under the name Nuparent, Inc. on June 22, 1999. The Company's name was changed to YouthStream Media Networks, Inc. on June 24, 1999 and that name was used through October 23, 2007. The Company's name was changed to ALJ Regional Holdings, Inc. on October 23, 2007.

The Company maintains a website at www.aljregionalholdings.com.

The Company's investor relations contact is Jess Ravich, the Executive Chairman of the Company. Mr. Ravich can be reached at (213) 244-0045.

The Company's transfer agent is American Stock Transfer & Trust Company, LLC, whose address and phone number are:

American Stock Transfer & Trust Company, LLC
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
(718) 921-8293

American Stock Transfer & Trust Company, LLC is registered under the Securities and Exchange Act of 1934. The regulatory authority of the transfer agent is the SEC.

PART B

SHARE STRUCTURE AND ISSUANCE HISTORY

The Company has only two classes of securities; common stock (par value $0.01) (CUSIP Number: 001627108) and preferred stock (par value $0.01), the details of which are disclosed in the table below.

	Common Stock Period End Date			**Preferred Stock Period End Date**		
	September 30, 2013	September 30, 2012	September 30, 2011	September 30, 2013	September 30, 2012	September 30, 2011
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	26,744,913*	57,246,598	56,934,040	0	0	0

* The Company used $25,200,000 to repurchase 30,000,000 shares of its outstanding common stock at $0.84 per share under a modified "Dutch auction" tender offer which closed on February 12, 2013 (the "Tender Offer"). The shares repurchased in the Tender Offer were immediately retired.

Of the 5,000,000 shares of preferred stock authorized, 1,000,000 shares have been designated as Series A Preferred Stock, none of which are currently issued and outstanding and 550,000 shares have been designated as Series B Preferred Stock, none of which are currently issued and outstanding. As of September 30, 2013, there were 210 holders of record of the Company's common stock.

Since June 24, 2005, the Company's common stock has traded on the "Pink Sheets." The Company's common stock was traded under the symbol "YSTM.PK" from June 24, 2005 through December 7, 2006. On December 8, 2006, the Company's common stock began trading under the symbol "ALJJ.PK." Prior to June 24, 2005, the Company's common stock traded on the OTC Bulletin Board under the symbol "YSTM." The following table sets forth the high and low closing bid prices for the common stock as provided by Pinksheets.com. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

		High	**Low**
Fiscal 2013			
	First Quarter 12/31/12	0.77	0.36
	Second Quarter 3/31/13	0.84	0.77
	Third Quarter 6/30/13	0.84	0.78
	Fourth Quarter 9/30/13	0.85	0.78
Fiscal 2012			
	First Quarter 12/31/11	0.51	0.35
	Second Quarter 3/31/12	0.56	0.40
	Third Quarter 6/30/12	0.55	0.38
	Fourth Quarter 9/30/12	0.49	0.39

To date, the Company has not declared or paid any cash dividends on its common stock. The Board does not intend to declare any dividends in the foreseeable future. Pursuant to the Tender Offer, the Company used $25,200,000 of cash generated from the sale of the Company's former majority owned operating subsidiary, KES Acquisition Company ("KES"), to Optima Specialty Steel, Inc. ("Optima") to repurchase 30,000,000 shares of common stock from its stockholders. Otherwise, the Company intends to retain earnings for use in the Company's business operations.

On June 1, 2012, the Company announced that the Board of Directors of the Company (the "Board") had authorized the repurchase of up to 2,000,000 shares of the Company's issued and outstanding common stock, for a cost not to exceed $0.50

per share. The share repurchase program terminates on May 31, 2014. As of September 30, 2013, the Company repurchased 195,400 shares through the repurchase program.

During the twelve months ended September 30, 2013, the Company retired 30,777,900 shares of its common stock held in treasury, including the immediate retirement of the 30,000,000 shares of its common stock that it repurchased on February 12, 2013 under the Tender Offer.

Stockholder Rights Plan

On May 13, 2009, ALJ adopted a stockholder rights plan (the "Rights Plan") designed to preserve the value of certain tax assets primarily associated with its net operating loss carry-forwards ("NOLs") and built in losses under Section 382 ("Section 382") of the Internal Revenue Code of 1986, as amended (the "Code").

At September 30, 2013, ALJ had approximately $176 million in NOLs and the use of such losses to offset federal income tax would be limited if ALJ were to experience an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of ALJ's stock by value increase their collective ownership of the aggregate amount of ALJ's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

In connection with the Rights Plan, ALJ declared a dividend of one preferred share purchase right for each share of its common stock outstanding as of the close of business on May 21, 2009. Pursuant to the Rights Plan, any stockholder or group that acquires beneficial ownership of 4.9 percent or more of ALJ's outstanding stock (an "Acquiring Person") without the approval of the Board would be subjected to significant dilution of its holdings. Any existing stockholder holding 4.9% or more of ALJ's stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of ALJ; provided, however, that existing stockholders actually known to ALJ to hold 4.9% or more of its stock as of April 30, 2009 will be permitted to purchase up to an additional 5% of ALJ's stock without triggering the Rights Plan. In addition, in its discretion, the Board may exempt certain persons whose acquisition of securities is determined by the Board not to jeopardize ALJ's deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board. The Rights Plan was approved by ALJ's stockholders at the annual meeting of stockholders on June 4, 2009.

In addition to the Rights Plan, ALJ also adopted an amendment to its certificate of incorporation that imposes restrictions on transfer of stock that may result in an ownership change under Section 382.

The Board waived the Rights Plan and certificate of incorporation restrictions on transfer with respect to the issuance of 3,000,000 shares of ALJ's common stock to Harland Clarke on October 18, 2013 in connection with the acquisition of Faneuil (each as defined below), and the Board determined that Harland Clarke was not an Acquiring Person under the Rights Plan as a result of the issuance of such shares.

PART C

BUSINESS INFORMATION

RECENT EVENTS

Faneuil Acquisition

On October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil, Inc. ("Faneuil") from Harland Clarke Holdings Corp., a wholly owned subsidiary of MacAndrews & Forbes Holdings Inc. ("Harland Clarke"), pursuant to a stock purchase agreement, dated October 18, 2013, by and among ALJ, Anna Van Buren, Faneuil's Chief Executive Officer, as an individual purchaser, and Harland Clarke.

ALJ began discussions related to the potential acquisition of Faneuil with Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey"), financial advisor to Harland Clarke, on April 1, 2013. At the same time, ALJ engaged Morrison & Foerster LLP to act as ALJ's legal counsel with respect to the potential acquisition. On April 15, 2013, the parties entered into a confidentiality agreement and ALJ began initial due diligence on Faneuil. The Board was first apprised on the potential acquisition on May 6, 2013. Upon completion of ALJ's initial diligence, ALJ provided Houlihan Lokey an indication of interest on May 7, 2013 to acquire all of the equity of Faneuil on a cash-free and debt-free basis for $54.9 million. On May 29, 2013, ALJ was granted access to a virtual data room containing additional diligence materials. Materials were added to the data room throughout the negotiation process. As negotiations continued, ALJ provided revised indications of interest at various times, including June 21, 2013, June 24, 2013, June 26, 2013 and July 23, 2013.

On October 18, 2013, ALJ, Anna Van Buren, Faneuil's Chief Executive Officer, as an individual purchaser, and Harland Clarke executed the definitive stock purchase agreement by which ALJ and Ms. Van Buren collectively acquired all of the capital stock of Faneuil from Harland Clarke. The aggregate consideration for the acquisition of all of Faneuil's outstanding stock was $53 million, consisting of $25 million in cash, a contribution of $500,000 in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at $2,500,000 and a seller note for $25 million (the "Harland Clarke Note"). ALJ acquired 96.43% of Faneuil's outstanding capital stock and the remaining 3.57% was acquired by Ms. Van Buren. Following the closing of ALJ's acquisition of Faneuil on October 18, 2013, ALJ sold 3,286 shares of Faneuil's common stock to Tarsha Leherr, Faneuil's Vice President of Operations. As a result, as of the date of this Report, ALJ, Ms. Van Buren and Ms. Leherr hold, respectively, 883,857, 32,857 and 3,286 shares of Faneuil's common stock, for a total of 920,000 shares of Faneuil's common stock issued and outstanding. The maximum number of shares of common stock that Faneuil is authorized to issue is 1,000,000 shares.

The Harland Clarke Note provides for a two-year maturity with interest in the first year at five percent (5%) and interest in the second year at seven and one half percent (7.5%). The Harland Clarke Note has mandatory amortization of $1,000,000 per quarter with an annual cash flow sweep based on a defined free cash calculation. Additionally, Faneuil's obligations under the Harland Clarke Note are secured by a pledge of ALJ's stock of Faneuil and the stock of Faneuil's subsidiaries, subject to certain limitations.

Further, a Voting and Investor Rights Agreement was signed on October 18, 2013, by and among ALJ, Harland Clarke, Faneuil, Ms. Van Buren and Mr. Ravich, in his capacity as a stockholder of ALJ, which provides: (i) Harland Clarke certain rights to nominate a director to ALJ's Board, (ii) that Mr. Ravich shall vote his shares of ALJ common stock in favor of such nominee, (iii) certain rights of first refusal, co-sale and piggyback registration with respect to ALJ's shares of common stock held by Harland Clarke, and (iv) certain information rights with respect to Faneuil. Additionally, a Separation Agreement was signed on October 18, 2013, by and among ALJ, Harland Clarke, Faneuil and Scantron Corporation ("Scantron"), which agreement unwound certain affiliate arrangements between Faneuil, on the one hand, and Harland Clarke and Scantron, on the other hand, and provides for certain transition services to be provided by Scantron to Faneuil.

Faneuil will continue under the leadership of Ms. Van Buren and the remainder of its management team. In connection with the acquisition of Faneuil, ALJ's Board was expanded from five to seven members. Ms. Van Buren was appointed to the Board as a Class III director. In addition, Michael Borofsky, a representative of Harland Clarke, was appointed to the Board as a Class III director.

On October 18, 2013, Faneuil also entered into a Loan and Security Agreement by and among Faneuil and its wholly owned subsidiary, Faneuil Toll Operations LLC, as borrowers, and M&T Bank, providing for an asset based $5,000,000 revolving line of credit (the "M&T Credit Facility"). The revolving loans are subject to customary conditions precedent as well as a borrowing base limitation. In addition to the revolving loans, the M&T Credit Facility also provides for the issuance of letters of credit, which, together with all outstanding revolving loans, are subject to a dollar cap equal to the lesser of the borrowing base and $5,000,000. The M&T Credit Facility bears interest at a variable rate based on one-month LIBOR. The M&T Credit Facility was undrawn at closing and remains undrawn as of the date of this Report. The M&T Credit Facility is secured by substantially all of the assets of Faneuil and Faneuil Toll Operations LLC and contains customary representations, warranties and covenants, including a financial covenant requiring the borrowers to maintain a certain debt service coverage ratio. The M&T Credit Facility also contains customary events of default and indemnification obligations of Faneuil and Faneuil Toll Operations LLC.

A Subordination and Intercreditor Agreement was also signed on October 18, 2013, by and among Faneuil, Faneuil Toll Operations LLC, M&T Bank and Harland Clarke, pursuant to which the Harland Clarke Note was subordinated to the M&T Credit Facility.

On October 18, 2013, the board of directors of Faneuil adopted the Faneuil, Inc. 2013 Stock Incentive Plan (the "Plan"). The maximum aggregate number of shares of Faneuil's common stock which may be issued pursuant to awards under the Plan is 80,000 shares.

Also on October 18, 2013, the board of directors of Faneuil granted Ms. Van Buren an option to purchase 60,000 shares of Faneuil's common stock under the Plan, which option is described under "Certain Relationships and Related Transactions" below.

Sale of KES and Tender Offer

On February 5, 2013, ALJ completed the sale of KES, ALJ's former majority owned operating subsidiary that owned and operated a steel mini-mill in Ashland, Kentucky, to Optima for $114.4 million in cash pursuant to the merger agreement dated November 18, 2012. The sale was effected as a merger of Optima's wholly owned subsidiary KES Optima Acquisition Inc. with and into KES with KES surviving as a wholly owned subsidiary of Optima.

As a result of the sale of KES, ALJ retired all outstanding loans at KES and sold 100% of the stock of KES. This included $10.9 million related to the asset-based revolving credit line and term loan (the "Credit Facility") and related accrued interest pursuant to the Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of September 30, 2011, between KES and PNC Bank, National Association, $20.8 million related to the 8% subordinated loans (the "8% Subordinated Loans") and related accrued interest (not including proceeds paid to ALJ as a holder of 8% Subordinated Loans) pursuant to the Subordinated Financing Agreement, dated July 20, 2009, by and among KES, the lenders party thereto and Ableco, L.L.C., $11.9 million related to the Series A Preferred Stock of KES and accrued dividends thereon, and $10.2 million related to the Series B Common Stock of KES (not including proceeds paid to ALJ as a holder of KES Series B Common Stock).

Effective as of February 5, 2013, the following agreements between KES, on the one hand, and ALJ, certain officers or directors of ALJ or their affiliates, on the other hand, were terminated: (i) the Management Agreement with Pinnacle Steel, LLC ("Pinnacle"), (ii) the Amended and Restated Tax Sharing Agreement, dated as of February 23, 2007, by and between KES and ALJ, and (iii) the Fee and Reimbursement Agreement, dated as of September 30, 2011, by and between KES and certain guarantors related to Mr. Ravich.

On February 12, 2013, ALJ repurchased 30,000,000 shares of its common stock, approximately 50% of its outstanding common stock as of such date, at $0.84 per share for $25.2 million in the Tender Offer. ALJ used approximately 50% of its cash immediately following the closing of the sale of KES to acquire the shares. The Tender Offer was structured as a modified "Dutch auction" tender offer for up to 30,000,000 shares of ALJ's common stock at a price per share not greater than $0.86 and not less than $0.84. The Tender Offer expired on February 8, 2013. The Tender Offer was conditioned upon the closing of the sale of KES and closed at $0.84 per share on February 12, 2013.

CURRENT BUSINESS ACTIVITIES

The Company's current business is conducted through its majority-owned subsidiary, Faneuil, which the Company acquired on October 18, 2013. Faneuil is a leading provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries. Faneuil provides multi-channel contact center solutions for an extensive client portfolio focusing on high profile, highly regulated clients, managing more than 425 million customer interactions each year. Utilizing advanced applications and a workforce of approximately 3,000 service professionals, Faneuil delivers broad outsourcing support, ranging from customer care centers, fulfillment operations, and IT services, to manual and electronic toll collection, toll violation processing, health insurance enrollment assistance and forms processing.

Products and Services

Contact Center Operations

Faneuil operates multi-channel customer care centers staffed by 50 to 500 employees in several states. Contact center clients include several toll authorities, a health benefit exchange, a multi-state utility, municipalities, an agency that operates two major airports serving the Washington, D.C. area and several other government and commercial entities.

Toll Collection Services

Faneuil has been retained by many state and municipal transportation authorities to conduct manual and electronic toll operations. Faneuil's role in outsourced operations of electronic tolling extends beyond the traditional call center capabilities with expertise in violation processing, violation court support, fulfillment, front counter support and transponder sales and inventory. Faneuil's complement of automated services range from turn-key operations in which Faneuil assumes complete responsibility for every aspect, including management, staffing, systems, customer care, and transponder sales and distribution, to targeted applications in which Faneuil supplies specific components to supplement a client's own operation. Enforcement is also a key component of Faneuil's toll operations, which currently process more than 2 million violations each month. As the nation's largest outsource provider of manual toll collection, Faneuil deploys over 1,800 specialists across multiple states providing face-to-face customer service.

Healthcare

In January 2013, Faneuil was chosen to support the Washington State Health Benefit Exchange by providing contact center services and CRM development. The operation was opened on September 3, 2013 and includes a dedicated operation in Spokane, Washington and overflow operations in a multi-client site in Virginia. In October 2013, the State of Tennessee announced the selection of Faneuil to operate its TennCare member services center.

Sales, Marketing and Product Support

Faneuil acquires new clients and contracts primarily by responding to requests for proposals issued by commercial and government entities and participating in other competitive bidding opportunities that align with its core proficiencies and strategic goals. Faneuil also partners with other businesses whose products and services complement their own, responding as a team or in a contractor - subcontractor capacity to selected solicitations that present advantageous business opportunities for both companies. Additionally, approximately 80 percent of Faneuil's current clients have expanded their business relationships with Faneuil since initial contract inception. Faneuil's business development representatives also network nationwide to promote Faneuil's outsourced business services to prospective clients.

Clients

Faneuil's client portfolio includes both government and commercial entities nationwide, among them several toll authorities, state agencies, municipalities, a publicly owned utility, a health benefit exchange, an agency that operates the major airports serving the Washington, D.C. area and several other public and private entities.

Client Concentration

One or a few clients have in the past and may in the future contribute a significant portion of Faneuil's consolidated revenue in one year, or over a period of several consecutive years. In calendar year 2012, revenue from the Florida Department of Transportation accounted for 36% of Faneuil's total revenues.

Competition

Faneuil's primary competitors are other large providers of toll services, such as Affiliated Computer Services, Inc. ("ACS") and TransCore, Inc., as well as contact center operators such as ACS, Maximus and Convergys Corporation. If Faneuil cannot compete effectively to win new business and retain existing clients, its operating results will be negatively affected. To remain competitive, Faneuil must continuously implement new technologies, expand its portfolio of outsourced services and may have to make occasional strategic adjustments to its pricing for its services.

Employees

As of September 30, 2013, ALJ had two employees, its Executive Chairman and its Chief Financial Officer, performing services dedicated primarily to general corporate and administrative matters. As of September 30, 2013, Faneuil had approximately 3,000 employees. None of the employees of ALJ or Faneuil are represented by a labor union.

Governmental Regulation

Faneuil's business is subject to many laws and regulatory requirements in the United States, covering such matters as data privacy, consumer protection, health care requirements, labor relations, taxation, internal and disclosure control obligations, governmental affairs and immigration. For example, Faneuil is subject to state and federal laws and regulations regarding the protection of consumer information commonly referred to as "non-public personal information." For instance, the collection of patient data through Faneuil's call center services and medical device tracking services is subject to the Health Insurance Portability and Accountability Act of 1996, commonly known as HIPAA, which protects the privacy of patient data. These laws, regulations and agreements require Faneuil to develop and implement policies to protect nonpublic personal information and to disclose these policies to consumers before a customer relationship is established and periodically thereafter. The laws, regulations, and agreements limit Faneuil's ability to use or disclose non-public personal information for other than the purposes originally intended. Many of these regulations, including those related to data privacy, are frequently changing and sometimes conflicts exist among the various jurisdictions in which Faneuil provides services. Violations of these laws and regulations could result in liability for damages, fines, criminal prosecution, unfavorable publicity and restrictions on Faneuil's ability to operate. Faneuil's failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to Faneuil's reputation in the marketplace, which could have a material adverse effect on Faneuil's business, results of operations and financial condition. In addition, because a substantial portion of Faneuil's operating costs consist of labor costs, changes in governmental regulations relating to wages, healthcare and healthcare reform and other benefits or employment taxes could have a material adverse effect on Faneuil's business, results of operations or financial condition.

Properties

ALJ's corporate mailing address is 244 Madison Avenue, PMB 358, New York, NY 10016. Faneuil's headquarters are in Hampton, VA and its principal properties are as follows:

Location	Use	Approximate Floor Space (Square Feet)	Leased/Owned Status
Atlantic City, NJ	Administrative office	1,500	Leased
Boca Raton, FL	Florida corporate office	2,165	Leased
Clifton Forge, VA	Contact center	15,620	Leased
El Paso, TX	Administrative office	900	Leased

Location	Use	Approximate Floor Space (Square Feet)	Leased/Owned Status
Fort Lauderdale, FL	Sales office	1,720	Leased
Gloucester Point, VA	Walk-in retail location	1,500	Leased
Hampton, VA	Corporate headquarters	12,363	Leased
Herndon, VA	Walk-in retail location	3,300	Leased
Jupiter, FL	Sales office	1,178	Leased
Lakeland, FL	Administrative office	1,040	Leased
Lawrence, KS	Administration	19,000	Leased
Martinsville, VA	Contact center	12,309	Leased
Orlando, FL	Administrative office	12,420	Leased
Orlando, FL	Contact center	17,842	Leased
Richmond, VA	Walk-in retail location	2,000	Leased
South Boston, VA	Contact center	10,761	Leased
Tallahassee, FL	Administrative office	1,500	Leased
Tampa, FL	Administrative office	1,453	Leased
Vienna, VA	Administrative office	681	Leased
Portsmouth, VA	Walk-in retail and contact center	8,325	Leased
Spokane, WA	Contact center	10,748	Leased

Legal Proceedings

There are no pending material legal proceedings affecting Faneuil or ALJ as of the date of this Report.

DISCONTINUED OPERATIONS

On February 5, 2013, ALJ completed the sale of KES, ALJ's former majority owned operating subsidiary that owned and operated a steel mini-mill in Ashland, Kentucky, to Optima for $114.4 million in cash pursuant to the merger agreement dated November 18, 2012. The sale was effected as a merger of Optima's wholly owned subsidiary KES Optima Acquisition Inc. with and into KES with KES surviving as a wholly owned subsidiary of Optima. As a result, KES is now being reported as a Discontinued Operation on ALJ's financial statements.

As a result of the sale of KES, ALJ's cash position increased to approximately $52.6 million. ALJ also recognized a gain of approximately $76.8 million, which was offset by a reduction of $13.0 million in Minority Interest and $5.6 million in the reduction of deferred tax assets.

As a result of the sale of KES, ALJ retired all outstanding loans at KES and sold 100% of the stock of KES. This included $10.9 million related to Credit Facility and related accrued interest, $20.8 million related to the 8% Subordinated Loans and related accrued interest (not including proceeds paid to ALJ as a holder of 8% Subordinated Loans), $11.9 million related to the Series A Preferred Stock of KES and accrued dividends thereon, and $10.2 million related to the Series B Common Stock of KES (not including proceeds paid to ALJ as a holder of KES Series B Common Stock).

RISK FACTORS

The following risk factors and other information included in this Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be significantly harmed.

Risks Related to Faneuil

Economic downturns and reductions in government funding could have a negative effect on Faneuil's business.

Demand for the services offered by Faneuil has been, and is expected to continue to be, subject to significant fluctuations due to a variety of factors beyond our control, including economic conditions. During economic downturns, the ability of both private and governmental entities to make expenditures may decline significantly. We cannot be certain that economic or political conditions will be generally favorable or that there will not be significant fluctuations adversely affecting Faneuil's industry as a whole or key industry segments targeted by Faneuil. In addition, Faneuil's operations are, in part, dependent upon government funding. Significant changes in the level of government funding could have an unfavorable effect on Faneuil's business, financial position, results of operations and cash flows.

Faneuil's business involves many program-related and contract-related risks.

Faneuil's business is subject to a variety of program-related risks, including changes in political and other circumstances, particularly since contracts for major programs are performed over extended periods of time. These risks include changes in personnel at governing authorities, the failure of applicable governing authorities to take necessary actions, opposition by third parties to particular programs and the failure by customers to obtain adequate financing for particular programs. Due to these factors, losses on a particular contract or contracts could occur, and Faneuil could experience significant changes in operating results on a quarterly or annual basis.

Delays in the government budget process or a government shutdown may adversely affect Faneuil's cash flows and operating results.

Faneuil derives a significant portion of its revenue from government contracts and programs. Any delay in the state government budget process or a state government shutdown may result in Faneuil's incurrence of substantial labor or other costs without reimbursement under customer contracts, or the delay or cancellation of key programs in which Faneuil is involved, which could materially adversely affect Faneuil's cash flows and operating results.

Faneuil faces intense competition. If Faneuil does not compete effectively, its business may suffer.

Faneuil faces intense competition from numerous competitors. Faneuil's services as they relate to toll collection, customer contact centers and employee staffing compete primarily on the basis of quality, performance, innovation, technology, price, applications expertise, system and service flexibility and established customer service capabilities. Faneuil may not be able to compete effectively on all of these fronts or with all of its competitors. In addition, new competitors may emerge, and service offerings may be threatened by new technologies or market trends that reduce the value of the services Faneuil provides. To remain competitive, Faneuil must respond to new technologies and enhance its existing services, and we anticipate that it may have to adjust the pricing for its services to stay competitive on future responses to proposals.

Faneuil's dependence on one or a few customers could adversely affect it.

One or a few clients have in the past and may in the future contribute a significant portion of Faneuil's consolidated revenue in one year, or over a period of several consecutive years. In calendar year 2012, revenue from the Florida Department of Transportation accounted for 36% of Faneuil's total revenues. Faneuil has long standing relationships with many of its significant customers. However, because Faneuil's customers generally contract with it for specific projects or programs with a finite duration, Faneuil may lose these customers if funding for their program is discontinued, or their projects come to an end. The loss or reduction of any significant contracts with any of these customers could materially reduce Faneuil's revenue and cash flows. Additionally, many of Faneuil's customers are government entities. In many situations, government entities can unilaterally terminate or modify Faneuil's existing contracts without cause and without penalty to the government agency. If Faneuil does not replace them with other customers or other programs, the loss of business from any one of such customers could have a material adverse effect on its business or results of operations.

Account data breaches involving stored data or misuse of such data could adversely affect Faneuil's reputation, performance and financial condition.

Faneuil provides services which involve the storage of non-public information. Any breach of the systems on which sensitive data and account information are stored or archived and any misuse by Faneuil's own employees, by employees of data archiving services or by other unauthorized users of such data could lead to damage to Faneuil's reputation and claims against Faneuil. If Faneuil is unsuccessful in defending any lawsuit involving such data security breaches or misuse, Faneuil may be forced to pay damages, which could materially and adversely affect Faneuil's profitability and financial condition. In addition, damage to Faneuil's reputation stemming from such breaches could adversely affect Faneuil's future prospects.

Faneuil's ability to recover capital investments in connection with its contracts is subject to risk.

In order to attract and retain large outsourcing contracts, Faneuil sometimes makes significant capital investments to perform its services under the contract, such as purchases of information technology equipment and costs incurred to develop and implement software. The net book value of such assets, including a portion of Faneuil's intangible assets, could be impaired, and Faneuil's earnings and cash flow could be materially adversely affected in the event of the early termination of all or a part of such a contract or the reduction in volumes and services thereunder for reasons such as, among other things, a client's merger or acquisition, divestiture of assets or businesses, business failure or deterioration, or a client's exercise of contract termination rights.

Faneuil's business could be adversely affected if Faneuil's clients are not satisfied with its services.

Faneuil's business model depends in large part on its ability to attract new work from Faneuil's base of existing clients. Faneuil's business model also depends on relationships Faneuil develops with its clients so that it can understand its clients' needs and deliver solutions and services that are tailored to those needs. If a client is not satisfied with the quality of work performed by Faneuil or a subcontractor, or with the type of services or solutions delivered, then Faneuil could incur additional costs to address the situation, the profitability of that work might be impaired, and the client's dissatisfaction with Faneuil's services could damage its ability to obtain additional work from that client. In particular, clients that are not satisfied might seek to terminate existing contracts prior to their scheduled expiration date and could direct future business to Faneuil's competitors. In addition, negative publicity related to Faneuil's client relationships, regardless of its accuracy, may further damage Faneuil's business by affecting its ability to compete for new contracts with current and prospective clients.

Faneuil's dependence on subcontractors and equipment manufacturers could adversely affect it.

In some cases, Faneuil relies on and partners with third party subcontractors as well as third party equipment manufacturers to service its contracts. To the extent that Faneuil cannot engage subcontractors or acquire equipment or materials, Faneuil's ability to perform according to the terms of its contracts may be impaired. If the amount Faneuil is required to pay for subcontracted services or equipment exceeds the amount Faneuil has estimated in bidding for fixed prices, or fixed unit price contracts, it could experience reduced profit or losses in the performance of these contracts. In addition, if a subcontractor or a manufacturer is unable to deliver its services, equipment or materials according to the negotiated terms for any reason, including the deterioration of its financial condition, Faneuil may be required to purchase the services, equipment or materials from another source at a higher price. This may reduce the profit to be realized or result in a loss on a program for which the services, equipment or materials were needed.

Faneuil's dependence on primary contractors could adversely affect its ability to secure new projects and derive a profit from its existing projects.

In some cases, Faneuil partners as a subcontractor with third parties who are the primary contractor. In these cases, Faneuil is largely dependent on the judgments of the primary contractor in bidding for new projects. Furthermore, even if projects are secured, if the primary contractor is unable to deliver its services according to the negotiated terms of the primary contract for any reason, including the deterioration of its financial condition, the customer may terminate or modify the primary contract which may reduce Faneuil's profit or cause losses in the performance of the contract.

If Faneuil guarantees to a customer the timely implementation or performance standards of a program, Faneuil could incur additional costs to meet its guarantee obligations.

In certain instances Faneuil guarantees a customer that Faneuil will implement a program by a scheduled date. Faneuil sometimes also provides that the program will achieve or adhere to certain performance standards or key performance indicators. If Faneuil subsequently fails to implement the program as scheduled, or if the program subsequently fails to meet the guaranteed performance standards, Faneuil may be held responsible for cost to the client resulting from any delay in implementation, or the costs incurred by the program to achieve the performance standards. In most cases where Faneuil fails to meet contract defined performance standards, it may be subject to agreed-upon liquidated damages. To the extent that these events occur, the total costs for the program would exceed Faneuil's original estimates and it could experience reduced profits or in some cases a loss for that program.

Adequate bonding is necessary for Faneuil to successfully win new work awards on some types of contracts.

In line with industry practice, Faneuil is often required, primarily in its toll and transportation programs, to provide performance and surety bonds to customers in conjunction with its contracts. These bonds indemnify the customer should Faneuil fail to perform its obligations under the contract. If a bond is required for a particular program and Faneuil is unable to obtain an appropriate bond, Faneuil cannot pursue that program. The issuance of a bond is at the surety's sole discretion. Moreover, due to events that affect the insurance and bonding markets generally, bonding may be more difficult to obtain in the future or may only be available at significant additional cost. There can be no assurance that bonds will continue to be available on reasonable terms. Any inability to obtain adequate bonding and, as a result, to bid on new work could have a material adverse effect on Faneuil's business, financial condition, results of operations and cash flows.

Interruption of Faneuil's data centers and customer call centers could have a materially adverse effect on Faneuil's business.

In the event that Faneuil experiences a temporary or permanent interruption at one or more of Faneuil's data or customer call centers, through natural disaster, casualty, operating malfunction, cyber-attack, sabotage or other causes, Faneuil may be unable to provide the services it is contractually obligated to deliver. This could result in Faneuil being required to pay contractual damages to some clients or to allow some clients to terminate or renegotiate their contracts. Notwithstanding disaster recovery and business continuity plans and precautions instituted to protect Faneuil's clients and Faneuil from events that could interrupt delivery of services, there is no guarantee that such interruptions would not result in a prolonged interruption in Faneuil's ability to provide support services to its clients or that such precautions would adequately compensate Faneuil for any losses it may incur as a result of such interruptions.

Any business disruptions due to political instability, armed hostilities, and incidents of terrorism or natural disasters could adversely affect Faneuil's financial performance.

If terrorist activity, armed conflict, political instability or natural disasters occur in the United States or other locations, such events may negatively affect Faneuil's operations, cause general economic conditions to deteriorate or cause demand for Faneuil's services, many of which depend on travel, to decline. A prolonged economic slowdown or recession could reduce the demand for Faneuil's services, and therefore, negatively affect Faneuil's future sales and profits. Any of these events could have a significant effect on Faneuil's business, financial condition or results of operations.

We are subject to uncertainties regarding healthcare reform that could materially and adversely affect our business.

On March 23, 2010, President Obama signed the Affordable Care Act (the "Affordable Care Act") into law, which has effected comprehensive health insurance reform, including the creation of health insurance exchanges among other reforms. A portion of our healthcare business relates to providing services to health insurance exchanges in various states and we believe that there may be significant opportunities for growth in this area. However, as has been widely publicized, the roll out of the new health insurance exchanges has been fraught with challenges, including, without limitation, problems faced by consumers trying to purchase insurance through the federal government's health insurance exchange website and various extensions on deadlines for consumers to select and pay premiums for their insurance. Given these challenges there is uncertainty about continued developments with respect to healthcare reform. Significant changes to, or repeal of, the Affordable Care Act could materially and adversely affect our business.

Faneuil's business is subject to many regulatory requirements, and current or future regulation could significantly increase Faneuil's cost of doing business.

Faneuil's business is subject to many laws and regulatory requirements in the United States, covering such matters as data privacy, consumer protection, health care requirements, labor relations, taxation, internal and disclosure control obligations, governmental affairs and immigration. For example, Faneuil is subject to state and federal laws and regulations regarding the protection of consumer information commonly referred to as "non-public personal information." For instance, the collection of patient data through Faneuil's call center services and medical device tracking services is subject to the Health Insurance Portability and Accountability Act of 1996, commonly known as HIPAA, which protects the privacy of patient data. These laws, regulations and agreements require Faneuil to develop and implement policies to protect nonpublic personal information and to disclose these policies to consumers before a customer relationship is established and periodically thereafter. The laws, regulations, and agreements limit Faneuil's ability to use or disclose non-public personal information for other than the purposes originally intended. Many of these regulations, including those related to data privacy, are frequently changing and sometimes conflicts exist among the various jurisdictions in which Faneuil provides services. Violations of these laws and regulations could result in liability for damages, fines, criminal prosecution, unfavorable publicity and restrictions on Faneuil's ability to operate. Faneuil's failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to Faneuil's reputation in the marketplace, which could have a material adverse effect on Faneuil's business, results of operations and financial condition. In addition, because a substantial portion of Faneuil's operating costs consist of labor costs, changes in governmental regulations relating to wages, healthcare and healthcare reform and other benefits or employment taxes could have a material adverse effect on Faneuil's business, results of operations or financial condition.

Faneuil may incur material restructuring charges in the future.

Faneuil continually evaluates ways to reduce Faneuil's operating expenses through new restructuring opportunities, including more effective utilization of Faneuil's assets, workforce, and operating facilities. In addition, changing industry and market conditions may dictate strategic decisions to restructure some business units and discontinue others. As a result, there is a risk, which is increased during economic downturns, that Faneuil may incur material restructuring charges in the future.

A failure to attract and retain necessary personnel, skilled management and qualified subcontractors may have an adverse impact on Faneuil's business.

Because Faneuil operates in intensely competitive markets, Faneuil's success depends to a significant extent upon its ability to attract, retain and motivate highly skilled and qualified personnel and to subcontract with qualified, competent subcontractors. If Faneuil fails to attract, develop, motivate, retain and effectively utilize personnel with the desired levels of training or experience, or is unable to contract with qualified, competent subcontractors, Faneuil's business, financial condition, and results of operations will be materially and adversely affected. Experienced and capable personnel remain in high demand, and there is continual competition for their talents. Additionally, in regard to the labor-intensive business of Faneuil, quality service depends on Faneuil's ability to retain employees and control personnel turnover. Any increase in the employee turnover rate could increase recruiting and training costs and could decrease operating effectiveness and productivity. Faneuil may not be able to continue to hire, train and retain a sufficient number of qualified personnel to adequately staff new client projects. Faneuil's business is driven in part by the personal relationships of Faneuil's senior management team and its success depends on the skills, experience, and performance of members of Faneuil's senior management team. Despite executing an employment agreement with Faneuil's CEO, she or other members of the management team may discontinue service with Faneuil and Faneuil may not be able to find individuals to replace them at the same cost, or at all. Faneuil has not obtained "key person" insurance for any member of its senior management team. The loss or interruption of the services of any key employee or the loss of a key subcontractor relationship could have an adverse effect on Faneuil's business, financial condition, cash flow, results of operations and prospects.

To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on our indebtedness and to fund any future capital expenditures required by Faneuil will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that Faneuil's business will generate sufficient cash flow from operations, or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We will need to refinance all or a portion of our indebtedness, on or before maturity. We cannot assure you that we will be able

to refinance any of our indebtedness on commercially reasonable terms or at all, particularly given the current state of credit markets.

Our net operating loss carry-forwards could be substantially limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code.

Our ability to utilize NOLs and tax credit carry-forwards to offset our future taxable income and/or to recover previously paid taxes would be limited if we were to undergo an "ownership change" within the meaning of Section 382 of the Code.

Section 382 of the Code contains rules that limit the ability of a company that undergoes an "ownership change," which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its NOLs and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders, our ability to use our NOLs and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We had approximately $176 million of (pre-tax) NOLs as of September 30, 2013. The NOLs do not begin to expire until 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

We do not believe we have experienced an "ownership change" as defined by Section 382 in the last three years. However, whether a change in ownership occurs in the future is largely outside of our control, and there can be no assurance that such a change will not occur.

In May 2009, we announced that our Board adopted a shareholder rights plan designed to preserve stockholder value and the value of certain tax assets primarily associated with NOLs and built in losses under Section 382 of the Code.

We also amended our certificate of incorporation to add certain restrictions on transfers of our stock that may result in an ownership change under Section 382.

Our ability and the ability of Faneuil to engage in some business transactions may be limited by the terms of our debt.

The M&T Credit Facility contains a financial covenant requiring Faneuil to meet a certain debt service coverage ratio, and the M&T Credit Facility and Harland Clarke Note contain covenants restricting Faneuil's ability to:

- incur additional debt;
- make certain capital expenditures;
- incur or permit liens to exist;
- enter into transactions with affiliates;
- guarantee the debt of other entities, including joint ventures;
- merge or consolidate or otherwise combine with another company; and
- transfer or sell our assets.

Faneuil's ability to borrow under the M&T Credit Facility will depend upon its ability to comply with certain covenants and borrowing base requirements. Its ability to meet these covenants and requirements may be affected by events beyond its control and it may not meet these obligations. The failure of Faneuil to comply with these covenants and requirements could result in an event of default under the M&T Credit Facility or Harland Clarke Note that, if not cured or waived, could terminate its ability to borrow further, permit acceleration of the relevant debt (and other indebtedness based on cross default provisions) and permit foreclosure on any collateral granted as security under the M&T Credit Facility or Harland Clarke Note. There can also be no assurance that the lenders will grant waivers on covenant violations, if they occur. Any such event of default would have a material adverse effect on us as Faneuil is our principal asset and cash we receive through our tax sharing payments from Faneuil is our sole source of cash to pay our operating expenses.

Our internal controls and procedures may be deficient.

Our internal controls and procedures may be subject to deficiencies or weaknesses. Remedying and monitoring internal controls and procedures distracts our management from its operations, planning, oversight and performance functions, which could harm our operating results. Additionally, any failure of our internal controls or procedures could harm our operating results or cause us to fail to meet our obligation to maintain adequate public information.

We may have unknown liabilities stemming from YouthStream Media Networks, Inc.'s historical operations.

There may have been liabilities that stem from YouthStream Media Networks, Inc.'s historical operations of which we are not aware. In the event any such liability becomes known, it may lead to claims against us, including, but not limited to, lawsuits, administrative proceedings, and other claims. Any such liabilities may subject us to increased expenses for attorneys' fees, fines and litigation and expenses associated with any subsequent settlements or judgments. There can be no assurance that such unknown liabilities do not exist. To the extent that such liabilities become known, any such liability-related expenses may materially and adversely affect our profitability, operating results and financial condition.

Risks Related to our Common Stock

Our common stock is illiquid and stockholders may be unable to sell their shares.

Our common stock is currently quoted on the "Pink Sheets" under the symbol "ALJJ.PK." There is currently only a limited market for our common stock and we can provide no assurance to investors that a more robust market will develop. If a broader market for our common stock does not develop, our stockholders may encounter difficulties selling their common stock from time to time.

We cannot assure you that our common stock will become listed on any securities exchange.

Although we may apply to list our common stock on NASDAQ, the American Stock Exchange or some other securities exchange in the future, we currently have no plans to do so. Even if we were to determine to pursue a listing, we also cannot assure you that we would be able to meet the initial listing standards, including the minimum per share price and minimum capitalization requirements, or that we would be able to maintain a listing of our common stock on either of those or any other trading venue. Until such time as we determine to list and qualify for listing on NASDAQ, the American Stock Exchange or another trading venue, our common stock will continue to be quoted on the Pink Sheets, which may make it more difficult for an investor to dispose of shares or obtain accurate quotations as to the market value of our common stock.

Our stock is a penny stock and, as a result, our stockholders are more limited in their ability to sell their stock.

The SEC has adopted rules that regulate broker-dealer practices in connection with the sale of penny stocks, or low-priced securities other than securities registered on certain exchanges, to persons other than established customers and institutional accredited investors. Because our securities constitute penny stocks within the meaning of the rules, the rules apply to us and our securities. For transactions covered by these rules, prior to effecting a transaction in a penny stock, a broker-dealer must, among other things: (a) make a special suitability determination for the purchaser; (b) deliver a standardized risk disclosure document to the customer; (c) receive written acknowledgement of the receipt of the disclosure statement; (d) provide to customers current bids and offers, including the number of shares to which such bid and offer prices apply; (e) disclose to customers the broker-dealer and sales representation compensation; and (f) receive the purchaser's written consent to the transaction prior to the sale. These suitability requirements and disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock.

The market price of our common stock is volatile.

The market price of our common stock could fluctuate substantially in the future in response to a number of factors, including the following:

- our quarterly operating results or the operating results of other companies in our industry;
- changes in general conditions in the economy, the financial markets or our industry;

- announcements by our competitors of significant acquisitions; and
- increases in raw materials and other costs.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

We do not currently plan to pay dividends to holders of our common stock.

We do not currently anticipate paying cash dividends to the holders of our common stock. Accordingly, holders of our common stock must rely upon price appreciation as the sole method to realize a gain on their investment. There can be no assurances that the price of our common stock will ever appreciate in value.

The anti-takeover provisions of our stockholders rights plan may have the effect of delaying or preventing beneficial takeover bids by third parties.

We have a stockholder rights plan designed to preserve the value of certain tax assets primarily associated with our NOLs and built in losses under Section 382. At September 30, 2013, the Company had approximately $176 million in NOLs and the use of such losses to offset federal income tax would be limited if the Company experiences an “ownership change” under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company’s stock by value increase their collective ownership of the aggregate amount of the Company’s stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an “ownership change” occurring as defined by Section 382.

In connection with the Rights Plan, the Company declared a dividend of one preferred share purchase right for each share of its common stock outstanding as of the close of business on May 21, 2009. Pursuant to the Rights Plan, any stockholder or group that acquires beneficial ownership of 4.9 percent or more of the Company’s outstanding stock (an “Acquiring Person”) without the approval of the Company’s Board would be subjected to significant dilution of its holdings. Any existing stockholder holding 4.9% or more of the Company’s stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of the Company; provided, however, that existing stockholders actually known to the Company to hold 4.9% or more of its stock as of April 30, 2009 are permitted to purchase up to an additional 5% of the Company’s stock without triggering the Rights Plan. In addition, in its discretion, the Board may exempt certain persons whose acquisition of securities is determined by the Board not to jeopardize the Company’s deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board.

While the Rights Plan is intended to protect our NOLs and built-in losses under Section 382, it may also have the effect of delaying or preventing beneficial takeover bids by third parties.

PART D

MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Directors and Officers Biographies and Board Structure.

The following table sets forth certain information regarding the Company's directors and executive officers.

Name	Age	Position
Jess M. Ravich	56	Executive Chairman, Class III Director
T. Robert Christ	44	Chief Financial Officer
Hal G. Byer	56	Class II Director
Robert Scott Fritz	56	Class I Director
Olimpio Lee Squitieri	56	Class II Director
John Scheel	59	Class I Director
Anna Van Buren	55	Class III Director
Michael Borofsky	41	Class III Director

The Company's Board of Directors is divided into three classes, with one class being elected each year and members of each class holding office for a three-year term. All of the directors serve until their terms expire and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal.

In June 2013, the Company re-elected Robert Scott Fritz and John Scheel as Class I directors with terms expiring 2016. The Class II and Class III directors' terms expire in 2014 and 2015, respectively.

The Board of Directors does not have separate audit, compensation or nominating committees.

The following is a brief summary of the backgrounds of the Company's directors and executive officers.

Jess M. Ravich. Mr. Ravich has served as a director of the Company since June 26, 2006 and the Chairman of the Board since August 31, 2006 and has served as the Executive Chairman and senior executive officer of the Company since February 20, 2013. Mr. Ravich joined The TCW Group as Group Managing Director in December 2012. Prior to that, Mr. Ravich was Managing Director at Houlihan Lokey since December 2009. Prior to that, Mr. Ravich was Chairman and Chief Executive Officer of Libra Securities, LLC ("Libra Securities"), a Los Angeles-based investment banking firm that focused on capital raising and financial advisory services for middle market corporate clients and the sales and trading of debt and equity securities for institutional investors. Prior to founding Libra Securities in 1991, Mr. Ravich was an Executive Vice President at Jefferies & Co., Inc. and a Senior Vice President at Drexel Burnham Lambert. Mr. Ravich has served on the board of directors of Cherokee Inc. (Nasdaq GS: CHKE) since May 1995. Mr. Ravich has also served as chairman of the board of directors of Cherokee Inc. since January 2011. Mr. Ravich has also served on the board of directors of Spectrum Group International, Inc. since 2009. In addition to his professional responsibilities, Mr. Ravich has also served on the Undergraduate Executive Board of the Wharton School and the Board of Trustees of the Archer School for Girls. Mr. Ravich has both a B.S and M.S. from the Wharton School and a J.D. from Harvard University.

T. Robert Christ. Mr. Christ has served as the Chief Financial Officer and Secretary of the Company since July 2008. Mr. Christ also serves as Executive Vice President for Aristotle International Inc., a political software company and age and identity verification company ("Aristotle"). Mr. Christ was previously Chief Financial Officer for Electronic Recyclers International, Inc., a nationwide recycler of e-waste. From 1999 to 2006, Mr. Christ served as Chief Operating Officer and Chief Financial Officer for Aristotle. From 1997 to 1999, Mr. Christ served as Chief Financial Officer for Pulsar Data Systems, a government contractor that merged with Litronic Inc. and went public in 1999. From 1994 to 1997, Mr. Christ served as controller for the Centech Group Inc., a government contractor, and from 1991 to 1993, Mr. Christ held various positions with Rubino and McGeehin, Chtd. a public accounting firm. Mr. Christ holds a B.B.A. degree in Accounting from James Madison University and passed the C.P.A. exam in 1991.

Hal G. Byer. Mr. Byer has served as a director of the Company since January 30, 2003. Mr. Byer joined Houlihan Lokey as a Senior Vice President in their Financial Sponsors Coverage Group in December 2009. From May 2001 to November 2009,

Mr. Byer was a Senior Vice President of Libra Securities, a broker-dealer registered with the Securities and Exchange Commission and an NASD member. From 1995 to 2003, Mr. Byer was Chief Executive Officer of Byer Distributing Co., a snack food distribution company. From 2000 to 2003, Mr. Byer was also the Chief Operating Officer of eGreatcause.com, an internet start-up involved in fundraising for charitable and non-profit organizations that is no longer active.

Robert Scott Fritz. Mr. Fritz has served as a director of the Company since January 30, 2003. Since May 2002, Mr. Fritz has served as the president of Robert Fritz and Sons Sales Company, a food broker and paper distributor that he owns in New Jersey. Mr. Fritz holds a B.S. in Business from Fairleigh Dickinson University.

Olimpio Lee Squitieri. Mr. Squitieri has served as a director of the Company since June 2008. Since January 2001, Mr. Squitieri has served as a partner at Squitieri & Fearon, LLP. From 1988 through January 2001, Mr. Squitieri was a partner at the firm formerly known as Abbey, Gardy & Squitieri, LLP. Since December 2006, Mr. Squitieri has served as a director and vice president of Sixty Sutton Corp. Mr. Squitieri also serves as a director of SCAN New York, a non-profit organization. Mr. Squitieri has a B.A. from Rutgers University and a J.D. from New York Law School.

John Scheel. Mr. Scheel has served as a director of the Company since September 13, 2006. From August 31, 2006 to February 20, 2013, Mr. Scheel was the President and Chief Executive Officer of the Company. Mr. Scheel is a principal of and also currently serves as the Chief Operating Officer of Pinnacle Steel, and pursuant to the Management Agreement between KES and Pinnacle, he served as plant manager of KES' steel mini-mill in Ashland, Kentucky (the "Mill") prior to our sale of KES. Mr. Scheel managed the operations of KES on our behalf from January 2004 until its sale to Optima on February 5, 2013. Following such sale, Mr. Scheel has continued to manage the Mill as its general manager. Prior to joining Pinnacle, Mr. Scheel held various positions of increased responsibility at AK Steel, Nucor Corporation and Birmingham Steel Management. Mr. Scheel holds both B.S. and M.S. degrees in Metallurgical Engineering from Purdue University and a Master of Business Administration in Finance and International Business from Xavier University.

Anna Van Buren. Ms. Van Buren was appointed President and Chief Executive Officer of Faneuil, in April 2009, after previously serving as President and Chief Operating Officer from 2007 to 2009, as Vice President and Managing Director of Faneuil's Government Services Division from 2005 to 2007, and as its Vice President of Business Development from 2004 to 2005. Prior to her association with Faneuil, Ms. Van Buren founded Capital Initiatives, a consulting service for clients seeking visibility among federal lawmakers with the objective of encouraging legislative action, and operated numerous government services and marketing companies. Ms. Van Buren has served in leadership roles for many civic and business organizations including chairmanship of the United Way of the Virginia Peninsula, the Peninsula Chamber of Commerce, and the NASA Aeronautics Support Team. She is the recipient of numerous awards including the Women in Business Achievement Award by Inside Business Magazine, the Presidential Citizenship Award from Hampton University and the NCCJ Humanitarian Award. Ms. Van Buren holds a degree from Hollins University and the University of Virginia Executive School.

Michael Borofsky. Mr. Borofsky is Senior Vice President of MacAndrews & Forbes. Prior to joining MacAndrews & Forbes in 2003, Mr. Borofsky was with the law firm of Skadden, Arps, Slate, Meagher & Flom LLP, where he specialized in mergers & acquisitions, and before that he was an analyst in the treasury group of Goldman Sachs Group, Inc. Mr. Borofsky has a B.A. from Yale University and a J.D. from Columbia University School of Law.

During the last five years, none of the Company's directors or executive officers has been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

There are no family relationships among or between the Company's directors, officers, or beneficial owners of more than five percent (5%) of any class of the Company's securities.

Officer's Compensation

The following table sets forth the total compensation paid or accrued by the Company to the named executive officers for services rendered during the last three fiscal years ended September 30, 2013. No other executive officers received total annual compensation exceeding $100,000 during such fiscal years.

		Annual Compensation		**Long-Term Compensation**	
				Securities Underlying Stock Awards	**All Other Compensation**
	Year	**Salary**	**Bonus**		
Jess Ravich (1)	2013	$ 0	$ 0	1,015,243	$ 12,500
Executive Chairman	2012	$ 0	$ 0	0	$ 25,000
	2011	$ 0	$ 0	21,186	$ 12,500
John Scheel (2)	2013	$23,570	$ 0	15,243	$ 12,500
Chief Executive Officer, Director	2012	$60,000	$ 0	0	$ 25,000
	2011	$60,000	$ 0	21,186	$ 12,500
T. Robert Christ (3)	2013	$60,000	$ 0	0	$ 0
Chief Financial Officer and Secretary	2012	$60,000	$ 0	0	$ 0
	2011	$60,000	$ 0	0	$ 0

(1) Mr. Ravich has served as the Executive Chairman since February 20, 2013. Mr. Ravich allowed for his 2013 annual salary to be donated on behalf of ALJ to a charity in the amount of $50,000. Mr. Ravich received $25,000 as director compensation for each of 2013, 2012, and 2011, of which all $25,000 was paid in cash for 2012 and $12,500 was paid in cash for 2013 and 2011. In 2013 and 2011, the remaining 50% of Mr. Ravich's director compensation was paid in shares of restricted stock valued at the fair market value on the date of grant. Mr. Ravich also received a stock option to purchase 1,000,000 shares of ALJ at $1.00 per share for services to ALJ in connection with the Faneuil acquisition.

(2) Mr. Scheel served as President and Chief Executive Officer from August 31, 2006 to February 20, 2013. Mr. Scheel received $25,000 as director compensation for each of 2013, 2012, and 2011, of which all $25,000 was paid in cash for 2012 and $12,500 was paid in cash for 2013 and 2011. In 2013 and 2011, the remaining 50% of Mr. Scheel's director compensation was paid in shares of restricted stock valued at the fair market value on the date of grant. Mr. Scheel's annual salary was $60,000. Mr. Scheel also received compensation from Pinnacle, which managed the Mill and of which he is a principal. For the twelve months ended September 30, 2013, 2012, and 2011, Pinnacle's management fees were $5,275,000, $2,405,096, and $2,823,355, respectively. The September 30, 2013 Pinnacle management fee included a $5.1 million termination fee.

(3) Mr. Christ's annual salary is $60,000.

Director Compensation

Pursuant to the director compensation program adopted in June 2008, each member of the Board receives annual compensation of $25,000, 50% of which is paid in cash and 50% of which is paid in shares of restricted stock valued at the fair market value on the date of grant. Directors may also be reimbursed for any out-of-pocket expenses they incur in the performance of their responsibilities for us. For the 12 month service period ended June 2013, pursuant to a one-time modification of the 2008 director compensation program approved at the July 27, 2012 board meeting, directors received their entire $25,000 of director compensation in cash.

On August 27, 2013, in consideration for services provided to us in connection with the acquisition of Faneuil, the Board granted an option to purchase 1,000,000 shares of our common stock to Mr. Ravich, and an option to purchase 175,000 shares of our common stock to Mr. Byer. Such options vested and became exercisable in full in accordance with their terms on October 18, 2013 by virtue of the closing of our acquisition of Faneuil. The exercise price for each such option is $1.00 per share. Such options expire on October 18, 2020.

Also on August 27, 2013, for reimbursement of personal tax liabilities incurred in connection with the option grants described above, the Board approved cash payments in the amount of $40,000 to Mr. Ravich and $15,000 to Mr. Byer. Mr. Ravich and Mr. Byer became entitled to their respective cash payments on October 18, 2013 by virtue of the closing of our acquisition of Faneuil.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of November 30, 2013, the beneficial ownership of common stock with respect to (i) each person who was known by the Company to own beneficially more than 5% of the outstanding shares of common stock, (ii) each director, (iii) each of the Company's current executive officers, and (iv) all directors and executive officers as a group. As of November 30, 2013, the Company had 26,744,913 shares of common stock issued and outstanding, which was the only class of voting securities authorized or outstanding.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Executive Officers and Directors:		
Robert Scott Fritz, Director 711 Sycamore Avenue Tinton Falls, NJ 07701	621,932(2)	2.33%
Hal G. Byer, Director c/o Houlihan Lokey 10250 Constellation Blvd, 5th Floor Los Angeles, CA 90067	299,633(3)	1.11%
Olimpio Lee Squitieri, Director 32 East 57th Street, 12th Floor New York, NY 10022	610,892(4)	2.28%
Jess M. Ravich, Executive Chairman 149 S. Barrington Avenue, #828 Los Angeles, CA 90049	14,163,461(5)	47.61%
John Scheel, Director c/o KES Acquisition Company 2704 South Big Run Road Ashland, Kentucky 41102	747,352(6)	2.79%
Anna Van Buren, Director c/o Faneuil, Inc. 2 Eaton St, Suite 1002 Hampton, VA 23669	-	*%
Michael Borofsky 35 East 62nd Street New York, NY 10065	-	*%
T. Robert Christ, Chief Financial Officer P.O. Box 99418 San Diego, CA 92169	200,000(7)	*%
All current directors and officers as a group	17,109,198 (8)	56.78%
5% Stockholders:		
Harland Clarke Holdings Corp. 10931 Laureate Drive San Antonio, Texas 78249	3,000,000	11.22%

(1) Consistent with regulations of the U.S. Securities and Exchange Commission, shares of common stock issuable upon exercise of derivative securities by their terms exercisable within 60 days of November 30, 2013 are deemed outstanding for purposes of computing the percentage ownership of the person holding such securities but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to the knowledge of the Company, the persons and entities named in this table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(2) Includes 431,088 shares held by The Ravich Children Permanent Trust, for which Mr. Fritz is the sole trustee and 2,541 restricted shares vesting within 60 days of November 30, 2013.

(3) Includes 175,000 shares issuable upon exercise of currently vested options and 2,541 restricted shares vesting within 60 days of November 30, 2013.

(4) Includes 202,000 shares held in a custodial account for the benefit of Mr. Squitieri's daughter over which he has dispositive power. Mr. Squitieri disclaims beneficial ownership for these shares. Also includes 2,541 restricted shares vesting within 60 days of November 30, 2013.

(5) Includes 5,288,751 shares held by the Exemption Trust under the Ravich Revocable Trust of 1989 and 5,844,632 shares held by the Ravich Revocable Trust of 1989, as well as 3,000,000 shares issuable upon exercise of currently vested options and 2,541 restricted shares vesting within 60 days of November 30, 2013.

(6) Includes 2,541 restricted shares vesting within 60 days of November 30, 2013.

(7) Includes 200,000 shares issuable upon exercise of currently vested options.

(8) Includes 3,375,000 shares issuable upon exercise of currently vested options and 12,705 restricted shares vesting within 60 days of November 30, 2013.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain Relationships and Related Transactions – KES Transaction

Prior to ALJ's sale of KES, KES was party to a Management Agreement with Pinnacle. Pinnacle was entitled to a monthly management fee and a management incentive fee as provided in the Management Agreement. John Scheel, a director of the Company and formerly a director of KES, is a principal of and receives compensation from Pinnacle. In addition, the Management Agreement provided for an automatic termination following a change of control of KES, with a termination fee payable in an amount equal to two times the sum of the monthly management fees and management incentive fees paid during the prior 12-month period. In connection with the merger, the Management Agreement terminated as of the merger closing and Pinnacle received a termination payment of $5,146,000, which reflects a discount of approximately $0.5 million agreed to by Pinnacle by utilizing the 2012 fiscal results instead of the 2011 fiscal results in calculating such fee.

Jess Ravich, who is the Executive Chairman of the Company, a director of Faneuil and formerly a director of KES, received as a result of the sale, (i) $3.3 million as payment of principal and accrued interest on the 8% Subordinated Loans, (ii) $1.3 million related to the sale of 1,618 shares of Series B Common Stock of KES, and (iii) $2.4 million related to the retirement of the Series A Preferred Stock of KES, including accrued dividends thereon. Additionally, Libra Securities Holdings, LLC, an affiliate of Mr. Ravich, received as a result of the sale, (i) $3.9 million as payment of principal and accrued interest on the 8% Subordinated Loans, (ii) $2.9 million related to the sale of 3,657 shares of Series B Common Stock of KES, and (iii) $1.4 million related to the retirement of the Series A Preferred Stock of KES, including accrued dividends thereon.

Robert Scott Fritz, a director of the Company, received as a result of the sale, (i) $186,544 as payment of principal and accrued interest on the 8% Subordinated Loans, and (ii) $114,185 related to the sale of 144 shares of Series B Common Stock of KES.

Hal G. Byer, a director of the Company, received as a result of the sale, (i) $166,437 as payment of principal and accrued interest on the 8% Subordinated Loans, and (ii) $62,643 related to the sale of 79 shares of Series B Common Stock of KES.

Certain Relationships and Related Transactions – Faneuil Transaction

On August 27, 2013, in consideration for services provided to ALJ in connection with the acquisition of Faneuil, the Board granted an option to purchase 1,000,000 shares of ALJ common stock to Mr. Ravich, and an option to purchase 175,000 shares of ALJ common stock to Mr. Byer. Such options vested and became exercisable in full in accordance with their terms on October 18, 2013 by virtue of the closing of ALJ's acquisition of Faneuil. The exercise price for each such option is $1.00 per share. Such options expire on October 18, 2020.

Also on August 27, 2013, for reimbursement of personal tax liabilities incurred in connection with the option grants described above, the Board approved cash payments in the amount of $40,000 to Mr. Ravich and $15,000 to Mr. Byer. Mr. Ravich and Mr. Byer became entitled to their respective cash payments on October 18, 2013 by virtue of the closing of ALJ's acquisition of Faneuil.

Also on October 18, 2013, the board of directors of Faneuil granted Anna Van Buren, a director of the Company and Faneuil, an option to purchase 60,000 shares of Faneuil's common stock under the Plan. Such option vested with respect to one-third of the shares subject to the option on October 18, 2013 and one-half of the remaining unvested shares will vest on each of October 18, 2014 and October 18, 2015, conditioned on Ms. Van Buren's continuous service to Faneuil. Such option automatically vests and becomes exercisable in full upon the consummation of certain corporate transactions. The exercise price for such option is $30.43 per share (the same price paid by ALJ and Ms. Van Buren to acquire their shares of Faneuil). Such option expires on October 18, 2023.

FINANCIAL INFORMATION

The following financial statements of the Company are included at the end of this Report:

Consolidated Balance Sheets —

Twelve Months Ended September 30, 2013, 2012, and 2011

Consolidated Statements of Operations —

Twelve Months Ended September 30, 2013, 2012, and 2011

Consolidated Statement of Stockholders' Equity (Deficiency) —

Twelve Months Ended September 30, 2013, 2012, and 2011

Consolidated Statements of Cash Flows —

Twelve Months Ended September 30, 2013, 2012, and 2011

Notes to Consolidated Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates

The Company prepared its financial statements in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's financial statements.

Cash and Cash Equivalents

Cash and equivalents include all cash, demand deposits and money market accounts with original maturities of three months or less.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

Sales are made on an unsecured basis. Consequently, management reviews outstanding receivables and provides an allowance for doubtful accounts for those accounts that are expected to become uncollectible. The Company uses the allowance method to account for uncollectible accounts receivable. The Company's estimate is based on historical collection experience in its trade and a review of the current status of trade accounts receivable.

Inventory

Inventories are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods (billets) and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted monthly to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs. All inventories are carried at average cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for routine maintenance and repairs are charged to expense as incurred. Expenditures for equipment renewals and improvements, which extend the useful life of an asset, are capitalized. Certain equipment held under capital lease is classified as property, plant and equipment, and the related obligation is recorded as a liability. Lease amortization is included in depreciation expense.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings and improvements. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. The recoverability of long-lived assets is assessed by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting the Company's average cost of capital.

Loan Costs

Direct costs and fees associated with the establishment of debt financing are capitalized and amortized on a straight-line basis over the term of the underlying debt.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Shipping and Handling Fees and Costs

The Company reports shipping and handling fees charged to customers as part of net sales and the associated expense as part of cost of sales.

Operating Leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Rent payable under operating leases is recorded as an operating cost in the statement of operations on a straight-line basis over the lease terms.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be realized when the assets and liabilities are recovered or settled.

The Company recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the FAS Accounting Standards Codification. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is estimated and is subject to management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

The Company recognizes interest related to uncertainties in income taxes, if any, in interest expense and penalties in operating expenses.

Asset Retirement Obligations

The Company accounts for its asset retirement obligations in accordance with applicable standards which require that the discounted fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

All material environmental remediation liabilities for non-capital expenditures, which are probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required which affect the total cost.

Self Insurance

KES was self-insured for health care costs up to $45,000 per subscriber annually. Insurance coverage is carried for risks in excess of this amount. The Company estimates claims incurred but not reported in accrued expenses in the balance sheet.

Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board ("FASB") issued regulations in order to establish a single definition of fair value and a framework for measuring fair value under generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements with expanded disclosures about fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The Company adopted these regulations pertaining to non-financial assets and non-financial liabilities at the beginning of its 2009 fiscal year. This initial adoption did not have an impact on the Company's financial statements or footnote disclosures.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. The Company did not have any items of comprehensive income (loss) for any of the twelve months ended September 30, 2013, 2012, and 2011.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date

of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Results of Operations for the Twelve Months Ended September 30, 2013, 2012, and 2011

ALJ acquired Faneuil after the twelve month period ended September 30, 2013; therefore, Faneuil's results of operations are not presented in the table below.

On February 5, 2013, ALJ completed the sale of KES to Optima for $114.4 million in cash pursuant to the merger agreement dated November 18, 2012. The sale was effected as a merger of Optima's wholly owned subsidiary KES Optima Acquisition Inc. with and into KES with KES surviving as a wholly owned subsidiary of Optima. As a result, revenues and expenses associated with the operations of KES are presented as Discontinued Operations for all periods presented.

	2013	2012	2011
Sales	$ -	$ -	$ -
Cost of sales	-	-	-
Gross profit	-	-	-
Selling expenses	-	-	-
General and administrative expenses	641,493	1,327,362	812,593
Total SG&A	641,493	1,327,362	812,593
Income from operations	(641,493)	(1,327,362)	(812,593)
Interest Expense	-	-	(38,843)
Other Income	-	-	226,000
Dividend and Interest Income	462,991	19,681	17,437
Gain on write off of Discontinued Operations – non KES	-	2,686,193	-
Gain on Sale of KES	76,806,891	-	-
Gain on Sale of Minority Interest	10,029,058	-	-
Loss on Sale of investments	(95,811)	-	(151,541)
Total Other Expenses	87,203,129	2,705,874	53,053
Income from Continued Operations	86,561,636	1,378,512	(759,540)
Income Taxes – Continued Operations	(7,240,430)	3,546,746	2,752,904
Net income from Continued Operations	79,321,206	4,925,258	1,993,364
Income from Discontinued Operations	(159,164)	10,358,952	11,820,746
Income Taxes – Discontinued Op	-	(517,947)	(685,641)
Net Income from Discontinued Operations	(159,164)	9,841,005	11,135,105
Income from Operations	79,162,042	14,766,263	13,128,469
Minority interest	12,992,109	1,490,347	1,711,338
Net income	$ 66,169,933	$ 13,275,916	$ 11,417,131

Unaudited Pro Forma Results of Operations and Financial Condition of Faneuil

Faneuil, on a pro forma basis adjusted to eliminate certain assets retained by Harland Clarke, had revenue of $93,557,830 for the twelve months ended December 31, 2012 and $79,652,807 for the nine months ended September 30, 2013. Adjusted operating income was $3,376,347 and $6,438,301 with depreciation and amortization of $2,388,915 and $1,776,117 for the twelve months ended December 31, 2012 and for the nine months ended September 30, 2013, respectively.

On a pro forma adjusted basis, Faneuil had current assets of $27,255,560 and $29,318,146, current liabilities of $7,682,693 and $9,826,059 and long-term liabilities of $3,958,130 and $4,127,900 with stockholders' equity of $38,322,098 and $42,474,510 as of December 31, 2012 and September 30, 2013, respectively. The foregoing unaudited pro forma financial information does not give effect to the $25 million Harland Clarke Note.

The foregoing unaudited pro forma financial information includes adjustments which are preliminary and may be revised. There can be no assurance that such revisions will not result in material changes. The unaudited pro forma financial data is not necessarily indicative of results that actually would have occurred had the acquisition of Faneuil been completed on the dates indicated or that may occur in the future.

For the twelve months ended September 30, 2013 and 2012

General and Administrative Expenses

General and administrative expenses for the twelve months ended September 30, 2013 were $0.6 million, a decrease of $0.7 million, or 52%, over general and administrative expenses for the twelve months ended September 30, 2012 of $1.3 million. This decrease was primarily attributable to legal and investment banking expenses incurred in the twelve months ended September 30, 2012 related to the sale of KES of $0.7 million that did not recur in the twelve months ended September 30, 2013.

Interest Income

Interest income for the twelve months ended September 30, 2013 was $0.4 million, an increase of $0.4 million over interest income of $19,681 for the twelve months ended September 30, 2012. The increase was attributable to interest and dividend income earned on higher cash and investment balances during the twelve months ended September 30, 2013.

Gain on Write Off of Liabilities related to Discontinued Operations – Non KES

Gain on the write off of liabilities related to discontinued operations for the twelve months ended September 30, 2012 was $2.7 million. The Company did not recognize any gain on the write off of liabilities related to discontinued operations for the twelve months ended September 30, 2013. The Company wrote off $2.7 million in liabilities that it determined are no longer due in the twelve months ended September 30, 2012. The Company has reserved $298,466, against estimated tax liabilities that still remain related to the discontinued operations.

Gain on the Sale of KES

During the twelve months ended September 30, 2013, the Company recognized a gain on the sale of KES of approximately $76.8 million compared to $0 for the twelve months ended September 30, 2012.

Gain on the Settlement of Minority Interest

During the twelve months ended September 30, 2013, the Company recognized a gain on the settlement of its Minority Interest of approximately $10.0 million, compared to $0 for the twelve months ended September 30, 2012.

Loss on Sale of Investments

During the twelve months ended September 30, 2013, the Company recognized a loss on the sale of investment securities of approximately $95,811. The Company did not recognize a loss on the sale of investment securities for the twelve months ended September 30, 2012.

Income from Continuing Operations

Income from continuing operations for the twelve months ended September 30, 2013 was approximately $86.6 million compared to income from continuing operations for the twelve months ended September 30, 2012 of $1.4 million. The increase was primarily attributable to the gain on the sale of KES and gain on the settlement of minority interest.

Income taxes from Continuing Operations

Income taxes from continuing operations for the twelve months ended September 30, 2013 were $7.2 million compared to a tax benefit of $3.5 million for the twelve months ended September 30, 2012. The increase was primarily attributable to the write off of approximately $5.6 million of deferred tax asset related to the Company's NOLs, and $1.6 million associated with the sale of KES.

Income (Loss) from Discontinued Operations

Loss from discontinued operations for the twelve months ended September 30, 2013 was $(159,164) compared to income from discontinued operations of $10.4 million for the twelve months ended September 30, 2012. The decrease was primarily attributable to a shorter operating time frame for KES in the twelve months ended September 30, 2013. KES was sold on February 5, 2013, thus there were significantly fewer days of operations for KES in the twelve months ended September 30, 2013 compared to the twelve months ended September 30, 2012.

For the twelve months ended September 30, 2012 and 2011

General and Administrative Expenses

General and administrative expenses for the twelve months ended September 30, 2012 were $1.3 million, an increase of $0.5 million, or 64%, over general and administrative expenses for the twelve months ended September 30, 2011 of $0.8 million. This increase was primarily attributable to legal and investment banking expenses incurred in the twelve months ended September 30, 2012 related to the sale of KES of $0.7 million.

Interest Expense

Interest expense for the twelve months ended September 30, 2011 was $38,843. There was no interest expense for the twelve months ended September 30, 2012. The interest expense in the twelve months ended September 30, 2011 was attributable to a note payable, which was retired during the twelve months ended September 30, 2012.

Other Income

Other income for the twelve months ended September 30, 2011 was $226,000. There was no other income for the twelve months ended September 30, 2012. The other income in the twelve months ended September 30, 2011 was primarily attributable to $226,000 of forgiveness of debt related to the partial repurchase of the 4% Restated Promissory Note.

Interest Income

Interest income for the twelve months ended September 30, 2012 was $19,681, which was fairly comparable to interest income of $17,437 for the twelve months ended September 30, 2011.

Gain on Write Off of Liabilities related to Discontinued Operations

Gain on the write off of liabilities related to discontinued operations was $2.7 million for the twelve months ended September 30, 2012. The Company did not recognize any gain on the write off of liabilities related to discontinued operations for the twelve months ended September 30, 2011. The Company wrote off $2.7 million in liabilities that it determined are no longer due in the twelve months ended September 30, 2012. The Company has reserved $298,466 against estimated tax liabilities that still remain related to the discontinued operations.

Loss on Sale of Investments

Loss on sale of investments for the twelve months ended September 30, 2011 was $151,541. The loss on sale of investments was attributable to the write down of a portion of the Bellator investment during the twelve months ended September 30, 2011. There were no losses on the sale of investments for the twelve months ended September 30, 2012.

Income Tax Benefit

Income tax benefit for the twelve months ended September 30, 2012 was $3.5 million, an increase of $793,842, or 29%, over income tax benefit of $2.7 million for the twelve months ended September 30, 2011. The increase was primarily attributable to the recognition of future tax benefits attributable to the Company's NOLs during the twelve months ended September 30, 2012.

Income from Discontinued Operations

Income from discontinued operations for the twelve months ended September 30, 2012 was $10.4 million compared to income from discontinued operations of $11.8 million for the twelve months ended September 30, 2012. The decrease was primarily attributable to higher sales at KES for the twelve months ended September 30, 2011 compared to the twelve months ended September 30, 2012.

Liquidity and Capital Resources – September 30, 2013

The Company recognized net income of $66.2 million for the twelve months ended September 30, 2013 and generated a positive cash flow from investing activities of $112.9 million, partially offset by cash used in operating activities of $10.0 million and financing activities of $77.9 million for the twelve months ended September 30, 2013. The Company had an accumulated deficit of $235.2 million and stockholders' equity of $27.8 million at September 30, 2013.

On February 5, 2013, the Company sold KES to Optima for $114.4 million. After satisfying all of KES' liabilities, the Company increased the cash on its balance sheet to approximately $52.6 million. On February 12, 2013, the Company repurchased 30,000,000 shares of its common stock in a modified "Dutch auction" tender offer at $0.84 per share for total consideration of $25.2 million, leaving approximately $27.4 million in cash and short term investments on the Company's balance sheet. As a result of the sale of KES, ALJ retired all outstanding loans at KES and sold 100% of the stock in KES. This included $10.9 million related to the Credit Facility and related accrued interest, $20.8 million related to the 8% Subordinated Loans and related accrued interest (not including proceeds paid to ALJ as a holder of 8% Subordinated Loans), $11.9 million related to the Series A Preferred Stock of KES and accrued dividends thereon, and $10.2 million related to the Series B Common Stock of KES (not including proceeds paid to ALJ as a holder of KES Series B Common Stock).

On October 18, 2013, the Company acquired Faneuil for $53.0 million, consisting of $25.0 million in cash, a contribution of $0.5 million in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at $2.5 million and a seller note for $25.0 million. Also on October 18, 2013, Faneuil and M&T Bank entered into a Loan and Security Agreement and Trademark Security Agreement, pursuant to which agreements M&T Bank provided Faneuil a $5 million senior secured revolving line of credit.

ALJ believes that its cash resources will be adequate to fund its operations through September 30, 2014. However, to the extent that the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

Operating Activities

During the twelve months ended September 30, 2013, the Company used $10.0 million from operating activities, primarily attributable to a gain on the sale of KES of $76.8 million and a gain on the sale of minority interest of $10.0 million, partially offset by net income of $66.2 million and minority interest of $13.0 million.

Investing Activities

For the twelve months ended September 30, 2013, the Company received cash from investing activities of $112.9 million, primarily attributable to $112.5 million in cash received from the sale of KES.

Financing Activities

For the twelve months ended September 30, 2013, the Company used $77.9 million in financing activities primarily attributable to the repayment of $19.3 million in 8% Subordinated Loans, $11.8 million in Series A Preferred Stock of KES, $10.5 million in Series B Common Stock of KES, $7.2 million in KES' line of credit, and $4.0 million in term loans at KES, in addition to the $25.2 million related to the repurchase and retirement of the Company's common stock.

Principal Commitments

The Company did not have any principal commitments, material commitments for capital expenditures or short term commitments at September 30, 2013.

On October 18, 2013, the Company committed to acquire Faneuil for $53.0 million, consisting of $25.0 million in cash, a contribution of $0.5 million in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at $2.5 million and a seller note for $25.0 million. The seller note provides for a two-year maturity with interest in the first year at five percent (5%) and interest in the second year at seven and one half percent (7.5%). The Note has mandatory amortization of $1,000,000 per quarter with an annual cash flow sweep based on a defined free cash calculation. Additionally, Faneuil's obligations under the Note are secured by a pledge of ALJ's stock of Faneuil and the stock of Faneuil's subsidiaries, subject to certain limitations.

Off-Balance Sheet Arrangements

The Company does not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at September 30, 2013.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
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CERTIFICATION OF EXECUTIVE CHAIRMAN

I, Jess Ravich, certify that:

1. I have reviewed this annual report of ALJ Regional Holdings, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this annual report.

Date: December 27, 2013

/s/ Jess Ravich
Jess Ravich, Executive Chairman

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, T. Robert Christ, certify that:

1. I have reviewed this annual report of ALJ Regional Holdings, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this annual report.

Date: December 27, 2013

/s/ T. Robert Christ
T. Robert Christ, Chief Financial Officer

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2013, 2012, AND 2011

	2013	2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents	$27,825,326	$ 2,823,576	$ 1,282,228
Accounts receivable, less allowance for doubtful accounts of $420,710, $534,447, and $703,532, respectively	-	11,548,624	14,522,393
Inventory	-	24,005,885	28,351,131
Prepaid expenses and other current assets	129,492	1,252,102	1,310,364
Other receivables	-	71,701	-
Deferred tax asset	-	6,285,599	3,059,567
Total current assets	$ 27,954,818	$ 45,987,487	$ 48,525,683
Property, plant and equipment	$ -	$ 5,177,477	$ 5,107,203
Less accumulated depreciation and amortization	-	(2,934,624)	(2,573,958)
Property, plant and equipment, net	$ -	$ 2,242,853	$ 2,533,245
Other assets:			
Deferred loan costs, net	$ -	$ 274,494	$ 398,719
Deposits	-	224,460	924,460
Investment in Bellator	102,077	90,228	90,228
Total other assets	102,077	589,182	1,413,407
Total assets	$ 28,056,895	$ 48,819,522	$ 52,472,335

(continued)

	2013	2012	2011
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)			
Current liabilities:			
Accounts payable	$ -	$ 7,619,591	$ 9,888,998
Accrued expenses	-	4,522,920	4,854,768
Income taxes payable	-	50,485	867,300
Current portion of term loans	-	4,000,000	2,535,208
Current portion of capital lease obligation	-	-	171,792
Liabilities related to discontinued operations	298,466	298,466	2,984,660
Total current liabilities	$ 298,466	$ 16,491,462	$ 21,302,726
Non-current liabilities:			
8% subordinated secured loans	-	18,998,213	19,832,003
Secured line of credit	-	7,167,015	16,725,304
Term loan payable, less current portion	-	-	4,000,000
Series A Preferred stock of subsidiary subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share; 0 shares issued and outstanding at September 30, 2013 plus accumulated dividends of $0; 5,936 shares issued and outstanding at September 30, 2012 plus cumulative dividends of $5,867,750; 5,936 shares issued and outstanding at September 30, 2011 plus cumulative dividends of $5,093,760	-	11,803,750	11,029,760
Deferred tax liability	-	403,746	383,158
Minority interest – related parties	-	7,266,179	5,775,831
Total liabilities	$ 298,466	$ 62,130,365	$ 79,048,782
Commitments and contingencies			
Stockholders' equity (deficiency):			
Common stock, $0.01 par value; authorized – 100,000,000 shares; 26,744,913, 57,246,598, and 56,934,040, issued and outstanding as of September 30, 2013, 2012, and 2011	$267,612	$572,466	$569,340
Additional paid in capital	$ 262,755,790	$ 288,426,728	$ 288,365,584
Accumulated deficit	$ (235,235,946)	$ (301,405,879)	$ (314,681,795)
Treasury stock – 607,500 shares, at cost	(29,027)	(904,158)	(829,576)
Total stockholders' equity (deficiency)	$ 27,758,429	$ (13,310,843)	$ (26,576,447
Total liabilities and stockholders' equity (deficiency)	$ 28,056,895	$ 48,819,522	$ 52,472,335

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
TWELVE MONTHS ENDED SEPTEMBER 30, 2013, 2012, AND 2011

	2013	2012	2011
COSTS AND EXPENSES			
General and administrative	$ 641,493	$ 1,327,362	$ 812,593
Total	641,493	1,327,362	812,593
Income from operations	(641,493)	(1,327,362)	(812,593)
OTHER INCOME (EXPENSE)			
Interest expense	-	-	(38,843)
Gain on retirement of debt	-	-	226,000
Dividend and Interest Income	462,991	19,681	17,437
Gain on write off of Discontinued Operations	-	2,686,193	-
Gain on Sale of KES	76,806,891	-	-
Gain on Sale of Minority Interest	10,029,058	-	-
Loss on Sale of Investments	(95,811)	-	(151,541)
Total Other Expense, net	87,203,129	2,705,874	53,053
Income from Continued Operations	86,561,636	1,378,512	(759,540)
Income Taxes – Continued Operations	(7,240,430)	3,546,746	2,752,904
Net income from Continued Operations	79,321,206	4,925,258	1,993,364
Income from Discontinued Operations	(159,164)	10,358,952	11,820,746
Income Taxes – Discontinued Operations	-	(517,947)	(685,641)
Net Income – Discontinued Operations	(159,164)	9,841,005	11,135,105
INCOME FROM OPERATIONS, NET	79,162,042	14,766,263	13,128,469
MINORITY INTEREST	12,992,109	1,490,347	1,711,338
TOTAL NET INCOME	$ 66,169,933	$ 13,275,916	$ 11,417,131
NET INCOME PER COMMON SHARE -			
Basic	$1.58	$0.23	$0.21
Diluted	$1.47	$0.22	$0.21
NUMBER OF COMMON SHARES OUTSTANDING			
Basic	41,995,756	57,090,319	53,331,807
Diluted	44,883,256	59,490,319	54,856,807

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)
TWELVE MONTHS ENDED SEPTEMBER 30, 2013, 2012, AND 2011

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balances at September 30, 2010	49,729,574	$ 497,295	$ 284,717,264	$ (326,098,926)	$ (829,576)	$ (41,713,943)
Restructuring of 4% Preferred Stock	3,774,632	37,746	1,849,569			1,887,315
Restructuring of 4% ALJ Note	3,429,834	34,299	1,680,619			1,714,918
Retirement of 2,928 Shares of KES Treasury Stock			(36,599)			(36,599)
Share based compensation						
Restricted Stock			29,528			29,528
Stock Options			125,203			125,203
Net Income				11,417,131		11,417,131
Balances at September 30, 2011	56,934,040	$ 569,340	$ 288,365,584	$ (314,681,795)	$ (829,576)	$ (26,576,447)
Share based compensation						
Restricted Stock	200,000	2,000	43,997			45,997
Stock Options	105,930	1,059	17,214			18,273
Escheated Stock	6,628	67	(67)			-
Treasury Stock					(74,582)	(74,582)
Net Income				13,275,916		13,275,916
Balances at September 30, 2012	57,246,598	$ 572,466	$ 288,426,728	$ (301,405,879)	$ (904,158)	$ (13,310,843)
Share based compensation	-					
Issuance of Restricted Stock	76,215	762	61,738			62,500
Exercise of Stock Options	200,000	2,000	44,000			46,000
Net Income				66,169,933		66,169,933
Repurchase of 30,000,000 shares	(30,000,000)	(300,000)	(24,900,000)			(25,200,000)
Retirement of Treasury Stock	(777,900)	(7,616)	(876,676)		875,131	(9,161)
Balances at September 30, 2013	26,744,913	$ 267,612	$ 262,755,790	$ (235,235,946)	$ (29,027)	$ (27,758,429)

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2013, 2012, AND 2011

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income			
Gain on Sale of KES	$ 66,169,933	$ 13,275,916	$ 11,417,131
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of KES	(76,806,891)	-	-
Gain on sale of Minority Interest	(10,029,058)	-	-
Payment of KES Acquisition Fees	(8,036,882)	-	-
Discontinued Operations - Accumulated Deficit	(159,164)	-	-
Share based compensation	62,500	18,273	154,731
Depreciation and amortization	-	360,666	550,559
Provision for bad debts	-	(169,085)	(126,650)
Gain on early extinguishment of 13% Preferred Stock	-	-	(147,941)
Gain on early extinguishment of 4% Notes Payable	-	-	(132,351)
Gain on write off of liabilities related to discontinued operations	-	(2,686,194)	-
Amortization of loan costs	-	124,225	-
Loss on investments	-	-	151,541
Minority interest - related parties	12,977,301	1,490,348	1,711,338
Changes in operating assets and liabilities:			
(Increase) decrease in -			
Accounts receivable, net	-	3,142,854	(3,364,963)
Inventories	-	4,345,246	(7,078,473)
Other assets	-	-	-
Prepaid expenses	(9,295)	(13,439)	199,305
Deferred tax asset	5,881,853	(3,226,032)	(3,059,567)
Deposits	-	700,000	-
Increase (decrease) in -			
Accounts payable	-	(2,269,407)	3,777,008
Income taxes payable	(50,485)	(816,815)	539,227
Accrued expenses (including unpaid cumulative dividends on preferred stock and interest payable)	-	442,142	3,176,708
Deferred tax liability	-	20,588	383,158
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (10,000,188)	$ 14,739,286	$ 8,150,761
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in Bellator	$ (11,849)	$ -	$ -
Cash received from sale of KES	112,500,000	-	-
Cash received from sale of Series B Stock in KES	126,845	-	-
Cash received from retirement of 8% loans receivable	267,622	-	-
Investment in Equipment	-	(70,274)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$ 112,882,618	$ (70,274)	$ -
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from line of credit, net	$ (7,167,015)	$ (9,558,289)	$ 3,544,198
Payments on capital lease obligations and contract payables	-	(171,792)	(152,233)

Repayment on 8% Subordinated Loan	(19,265,835)	(833,790)	(11,867,492)
Net proceeds from stock and options	46,000	45,997	-
Loan costs associated with refinancing	-	-	(711,053)
Additional borrowings from 4% Preferred Stock	-	-	38,843
Repayment on 13% Preferred Stock	(11,803,750)	-	-
Cash payment on extinguishment of 4% Preferred Stock	-	-	(277,600)
Cash payment on extinguishment of 4% notes payable	-	-	(300,000)
Repurchase and retirement of ALJ common stock	(25,200,000)	-	-
Payments for Series B Stock of KES	(10,480,919)		
Repayments on PNC term loan	(4,000,000)	(2,000,000)	(3,514,714)
Proceeds from issuance of PNC Term Loan	-	-	6,014,714
Proceeds from issuance of Lake Forest Term Loan	-	-	535,208
Repayments on Lake Forest Term Loan	-	(535,208)	(533,275)
Repurchase of KES Treasury Stock	-	-	(36,599)
Repurchase of ALJ Treasury Stock	(9,161)	(74,582)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$ (77,880,680)	$ (13,127,664)	$ (7,260,003)
NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITES	$ 25,001,750	$ 1,541,348	$ 890,758
CASH AND CASH EQUIVALENTS			
Net increase (decrease)	$ 25,001,750	$ 1,541,348	$ 890,758
Balance at beginning of period	2,823,576	1,282,228	391,470
Balance at end of period	$ 27,825,326	$ 2,823,576	$ 1,282,228
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 8,078,135	$ 3,401,357	$ 5,024,022
Income taxes paid	$ 1,654,395	$ 3,059,919	$ 2,620,703

Noncash investing and financing transactions:

As part of the Company's debt restructuring in 2011, the Company realized a gain of approximately $335,000 related to principal and accrued interest forgiven. Of this gain, approximately, $25,000 was recognized in 2011. The remaining portion of the gain from the restructure, approximately $310,000, was used to offset approximately $710,000 of loan and legal fees which are being amortized over the life of the loan.

In June 2011, ALJ extinguished the remaining $2.1 million of 4% Note Payable for $300,000 in cash and 3,429,834 shares of ALJ Common Stock.

In June 2011, ALJ exchanged 305,156 shares of ALJ Preferred Stock for 3,774,632 shares of ALJ Common Stock.

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2013, 2012, AND 2011

1. Organization and Basis of Presentation

The Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, entitled The FASB Accounting Standards Codification of the Hierarchy of Generally Accepted Accounting Principles ("GAAP"). In substance, SFAS No. 168 makes the FAS Accounting Standards Codification ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC now is considered to be non-authoritative. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Company adopted the ASC upon issuance, with no material impact to the financial statements.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of ALJ Regional Holdings, Inc. (fka YouthStream Media Networks, Inc., "ALJ"), and its former majority-owned subsidiary KES Acquisition Company ("KES") (collectively, the "Company").

Commencing March 1, 2005, the Company has included the operations of a steel mini-mill located in Ashland, Kentucky, which represents the only business segment in which the Company operated in the twelve months ended September 30, 2013, in its consolidated financial statements. All inter-company items and transactions have been eliminated in consolidation.

Going Concern

Based on its current level of operations, the Company believes that its current cash resources will be adequate to fund its operations for the next twelve months.

The Company's management may also consider various strategic alternatives in the future, including the acquisition of new business opportunities, which may be from related or unrelated parties. However, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or equity securities.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding company, whose primary asset was a majority share of KES, a steel mini-mill that manufactures and sells steel bar flats.

Cash and Cash Equivalents

Cash and equivalents include all cash, demand deposits and money market accounts with original maturities of three months or less.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a

valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness, and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory

Inventories of KES are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods (billets) and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for routine maintenance and repairs are charged to expense as incurred. Expenditures for equipment renewals and improvements, which extend the useful life of an asset, are capitalized. Certain equipment held under capital lease is classified as property, plant and equipment, and the related obligation is recorded as a liability. Lease amortization is included in depreciation expense.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings and improvements. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. The recoverability of long-lived assets is assessed by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting the Company's average cost of capital.

Loan Costs

The Company amortized its loan costs from origination date through the loan maturity date. The loan cost amortization expense was $274,494, $137,628, and $176,212 for the twelve months ended September 30, 2013, 2012, and 2011, respectively.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases. Deferred tax assets are reduced by the valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2005 to 2012. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause actual income tax obligations to differ from our estimates, thus materially impacting the Company's financial position and results of operations.

If the Company takes a recognized tax position or has taken a recognized tax position on a tax return that more likely than not would be sustained upon examination by tax authorities, then the Company will recognize the potential asset or liability in the financial statements. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

Deferred Acquisition Costs

Deferred acquisition costs related to pending transactions are accounted for as part of the purchase consideration if and when the transaction is completed. If the Company does not complete the transaction, those costs are charged to operations in the period that the Company's efforts to complete the transaction are terminated.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Shipping and Handling Fees and Costs

The Company reports shipping and handling fees charged to customers as part of net sales and the associated expense as part of cost of sales.

Operating Leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Rent payable under operating leases is recorded as an operating cost in the statement of operations on a straight-line basis over the lease terms.

Stock-Based Compensation

The Company recognizes compensation expense for its equity awards on a straight-line basis over the requisite service period of the award based on the estimated portion of the award that is expected to vest and applies estimated forfeiture rates based on analyses of historical data, including termination patterns and other factors. Estimated forfeiture rates are applied based on analyses of historical data, including termination patterns and other factors. The Company uses the quoted closing market price of its common stock on the grant date to measure the fair value of restricted stock awards and the Black-Scholes option pricing model to measure the fair value of stock option awards. The expected volatility is based on historical volatilities of the Company's common stock over the most recent period commensurate with the estimated expected term of the awards. The expected term of an award is equal to the midpoint between the vesting date and the end of the contractual term of the award. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. The Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, uses an expected dividend yield of zero. Stock-based compensation cost for restricted stock awards and restricted stock units are measured based on the fair market value of the Company's common stock at the date of grant.

Asset Retirement Obligations

The Company accounts for its asset retirement obligations in accordance with applicable standards which require that the discounted fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

All material environmental remediation liabilities for non-capital expenditures, which are probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required which affect the total cost.

Self-Insurance

KES was self-insured for health care costs up to $45,000 per subscriber annually. Insurance coverage was carried for risks in excess of this amount. The Company recognized self-insured health care expense for the twelve months ended September 30, 2013, 2012, and 2011 of approximately $1,361,000, $3,077,000, and $3,282,000, respectively. As of September 30, 2013, 2012, and 2011, estimated claims incurred but not reported were approximately $0, $325,332, and $227,838, respectively.

Fair Value of Financial Instruments

In September 2006, the FASB issued regulations in order to establish a single definition of fair value and a framework for measuring fair value under generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements with expanded disclosures about fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The Company adopted these regulations pertaining to non-financial assets and non-financial liabilities at the beginning of its 2009 fiscal year. This initial adoption did not have an impact on the Company's financial statements or footnote disclosures.

Concentrations

The Company maintains its cash balances with a number of financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). Before October 3, 2009, the FDIC insured cash balances up to a limit of $100,000. On October 3, 2009, the FDIC increased the insurance levels to $250,000. As of September 30, 2013, 2012, and 2011, the Company had uninsured cash balances of approximately $19,750,000, $2,028,980, and $1,032,228, respectively.

Earnings Per Share

Basic net income or loss per share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Non-vested shares of restricted stock are not included in the computation of basic net income per share until vested. Diluted net income per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted net income per share also includes the dilutive effect of nonvested shares of restricted stock.

The following table summarizes the basic and dilutive weighted average shares at September 30, 2013, 2012, and 2011:

	2013	2012	2011
Weighted average shares outstanding, basic	41,995,756	57,090,319	53,331,807
Dilutive effect of:			
Options to purchase common stock	2,887,500	2,400,000	1,525,000
Weighted average shares outstanding, diluted	44,883,256	59,490,319	54,856,807

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. The Company did not have any items of comprehensive income (loss) for the twelve months ended September 30, 2013, 2012, and 2011.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications

Certain amounts for 2012 have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on the previously report net or comprehensive income.

3. Discontinued Operations

As of September 30, 2013, 2012, and 2011, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of $298,466, $298,466 and $2,984,660, respectively, remaining from its discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the discontinued businesses. The Company wrote off $2.7 million in liabilities that it has determined are no longer due in the twelve months ended September 30, 2012. The Company has reserved $298,466 against estimated tax liabilities that still remain related to the discontinued operations.

KES

On February 5, 2013, ALJ completed the sale of KES to Optima for $114.4 million in cash pursuant to the merger agreement dated November 18, 2012. The sale was effected as a merger of Optima's wholly owned subsidiary KES Optima Acquisition Inc. with and into KES with KES surviving as a wholly owned subsidiary of Optima.

As a result, KES is now being reported as a Discontinued Operation on ALJ's financial statements. The following Statements of Operations provide information on the discontinued operations not shown above in the Financial Statements.

DISCONTINUED OPERATIONS - KES
STATEMENTS OF OPERATIONS (UNAUDITED)

	Twelve Months Ended September 30,		
	2013	**2012**	**2011**
NET SALES	$48,002,933	$158,784,471	$162,020,525
COSTS AND EXPENSES			
Cost of sales	44,082,121	136,580,958	137,828,319
Selling	727,809	2,116,274	2,071,418
General and administrative	2,435,276	6,082,843	6,469,097
Total cost of operations	47,245,206	144,780,075	146,368,834
Income from operations	757,727	14,004,396	15,651,691
OTHER INCOME (EXPENSE)			
Loan Fees	-	(337,455)	(382,850)
Interest Expense	(924,664)	(3,326,046)	(3,842,162)
Interest Income	4,763	9,000	36,219
Gain on Debt	-	-	323,997
Other income (expense)	3,010	9,057	33,851
Total other (expense) income	(916,891)	(3,645,444)	(3,830,945)
INCOME (LOSS) BEFORE INCOME TAXES	(159,164)	10,358,952	11,820,746
Income taxes	-	517,947	685,641
INCOME (LOSS) FROM KES	(159,164)	9,841,005	11,135,105

As a result of the sale of KES, ALJ's cash position increased to approximately $52.6 million. ALJ also recognized a gain of approximately $76.8 million, which was offset by a reduction of $13.0 million in Minority Interest and $5.6 million in the reduction of deferred tax assets.

As a result of the sale of KES, ALJ retired all outstanding loans at KES and sold 100% of the stock in KES. This included $10.9 million related to the asset-based revolving credit line and term loan (the "Credit Facility") and related accrued interest pursuant to the Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of September 30, 2011, between KES and PNC Bank, National Association, $20.8 million related to the 8% subordinated loans (the "8% Subordinated Loans") and related accrued interest (not including proceeds paid to ALJ as a holder of 8% Subordinated Loans) pursuant to the Subordinated Financing Agreement, dated July 20, 2009, by and among KES, the lenders party thereto and Ableco, L.L.C., $11.9 million related to the Series A Preferred Stock of KES and accrued dividends thereon, and $10.2 million related to the Series B Common Stock of KES (not including proceeds paid to ALJ as a holder of KES Series B Common Stock).

Effective as of February 5, 2013, the following agreements between KES, on the one hand, and ALJ, certain officers or directors of ALJ or their affiliates, on the other hand, were terminated: (i) the Management Agreement with Pinnacle Steel, LLC ("Pinnacle"), (ii) the Amended and Restated Tax Sharing Agreement, dated as of February 23, 2007, by and between KES and ALJ, and (iii) the Fee and Reimbursement Agreement, dated as of September 30, 2011, by and between KES and certain guarantors related to Mr. Ravich.

4. Accounts Receivable

The Company's accounts receivable are summarized as follows at September 30, 2013, 2012, and 2011:

	2013	2012	2011
Accounts receivable	$ -	$ 12,083,071	$ 15,225,925
Less: Allowance for doubtful accounts	-	(534,447)	(703,532)
Accounts receivable, net	$ -	$ 11,548,624	$ 14,522,393

5. Inventories

Inventories are comprised of the following at September 30, 2013, 2012, and 2011:

	2013	2012	2011
Raw materials and scrap	$ -	$ 2,268,113	$ 2,739,663
Semi-finished goods	-	10,986,267	14,317,669
Finished goods	-	10,751,505	11,293,799
Total	$ -	$ 24,005,885	$ 28,351,131

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following at September 30, 2013, 2012, and 2011:

	2013	2012	2011
Land	$ -	$ 142,498	$ 142,498
Buildings and improvements	-	572,497	572,497
Machinery and equipment	-	4,456,032	4,385,758
Vehicle	-	6,450	6,450
Total	-	5,177,477	5,107,203

Less: Accumulated depreciation and amortization	-	(2,934,624)	(2,573,958)
Property, plant and equipment, net	$ -	$ 2,242,853	$ 2,533,245

Depreciation and amortization expense for the twelve months ended September 30, 2013, 2012, and 2011 was $60,112, $360,667, and $373,847, respectively.

7. Investments

In September 2009, the Company invested $212,500 in Bellator Sport Worldwide, LLC ("Bellator") an early development stage company specialized in the promotion, marketing, and development of mixed martial arts. During the twelve months ended September 30, 2010 the Company invested $29,269 in Bellator. During the twelve months ended September 30, 2011, the Company recognized a $151,541 loss on the investment in Bellator by writing down the investment to $90,228 as of September 30, 2011. During the twelve months ended September 30, 2013, the Company invested $11,849 in Bellator, increasing the investment to $102,077 as of September 30, 2013.

8. Long-Term Debt

At September 30, 2013, the Company had no long-term debt outstanding.

Historical Secured Credit Line

On September 30, 2011, KES entered into the Amended and Restated Revolving Credit, Term Loan and Security Agreement (the "Loan Agreement") with PNC Bank, National Association. The Loan Agreement provided for an asset-based revolving credit line of $30 million (the "Revolver") and a term loan of $6 million (the "Term Loan," and together with the Revolver, the "Credit Facility"). Interest was payable monthly in arrears on the outstanding principal balance at variable rates based on the LIBOR rate or a "Reference Rate." The Credit Facility was secured by all the assets of KES and contained customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios and has been presented as a non-current liability in the balance sheet. The Credit Facility was repaid in full upon the sale of KES on February 5, 2013.

The Company had a loan payable to Lake Forest Bank and Trust Company with a balance of $535,208 as of September 30, 2011. The loan was due in three equal payments of $181,472, including interest. The payments were due every three months beginning on December 1, 2011. This loan was repaid in 2012.

Historical 8% Subordinated Loans

The 8% Subordinated Loans consist of a series of loans that were due from KES under a Subordinated Financing Agreement dated July 20, 2009 by and among KES, the lenders party thereto and Ableco, L.L.C. (the "Subordinated Financing Agreement"), which replaced a series of subordinated secured promissory notes dated February 23, 2007, which were originally issued in March 2005 in connection with ALJ's acquisition of KES. The 8% Subordinated Loans were subordinate to the Credit Facility. The 8% Subordinated Loans bore interest at 8% per annum, with interest payable annually. The 8% Subordinated Loans were secured by a second priority security interest in all of KES' assets. The 8% Subordinated Loans were repaid in full upon the sale of KES on February 5, 2013.

The subordinated lenders included affiliates of Ableco, L.L.C., ALJ and three directors who currently serve on ALJ's Board of Directors.

9. Redeemable Preferred Stock

At September 30, 2013, the Company had no redeemable preferred stock outstanding.

Historical 13% Series A Preferred Stock

In connection with the acquisition of KES, and pursuant to its articles of incorporation, KES issued 25,000 shares of its 13% Series A Preferred Stock with the following rights, preferences and privileges:

a. Dividend Rights. The holders of the 13% Series A Preferred Stock were entitled to receive cumulative dividends in cash at the rate of 13% per year on the face amount of $1,000 per share payable concurrent with the redemption of the 13% Series A Preferred Stock. The dividends were payable, when and as declared by KES' Board of Directors, out of funds legally available for that purpose, upon a liquidation event or upon redemption of the 13% Series A Preferred Stock.

b. Liquidation and Redemption. The 13% Series A Preferred Stock contained a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and was redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of KES' full and complete repayment of the 8% Subordinated Loans.

c. Convertibility and Voting Rights. The 13% Series A Preferred Stock was not convertible into any other security of the Company, and the holders thereof had no voting rights except with respect to any proposed changes in the preferences and special rights of such stock or except as granted to holders by law.

As a result of the sale of KES, on February 5, 2013, ALJ retired all outstanding shares of 13% Series A Preferred Stock for $11.9 million.

Pursuant to SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," because the 13% Series A Preferred Stock provided for mandatory redemption in cash, it was classified as a long-term liability at the redemption value.

10. Income Taxes

For the twelve months ended September 30, 2013, 2012, and 2011, the Company had income tax expense due to taxable income from operations. The provision for income taxes related to continuing operations for the twelve months ended September 30, 2013, 2012, and 2011 consisted of the following:

	2013	2012	2011
Income tax expense – current			
Federal	$ 1,517,741	$ 32,550	$ 247,914
State	0	144,095	437,727
	$ 1,517,741	$ 176,645	$ 685,641
Income tax benefit – deferred			
Federal	$ 29,425,996	$ 531,554	$ 3,621,644
State	492,771	(405,032)	(79,548)
Change in valuation allowance	(24,036,914)	(3,331,966)	(6,295,000)
	5,881,853	(3,205,444)	(2,752,904)
	$ 7,399,594	$ (3,028,799)	$ (2,067,263)

Significant components of the Company's deferred tax liabilities and assets as of September 30, 2013, 2012, and 2011 are as follows:

	2013	2012	2011
Net deferred tax assets:			
Net operating loss carryforwards	$59,363,399	$87,694,526	$90,809,945
Accrued interest/dividends	-	620,899	143,030
Management incentive	-	682,038	488,372
Accrued health care cost	-	130,133	52,403
Accrued remediation cost	-	28,736	14,863
Allowance for doubtful accounts	-	213,778	161,812
Accrued vacation	-	-	2,044

Tax amortization below book	9,915	2,028,882	2,350,271
Other (AMT credit carryforward)	1,870,708	167,543	-
Net deferred tax asset	$ 61,244,022	$ 91,566,535	$ 94,022,740
Net deferred tax liabilities			
Tax depreciation in excess of book	$ -	$ (461,050)	$ (414,815)
Asset retirement obligation		57,304	31,657
Net deferred tax liabilities	$ -	$ (403,746)	$ (383,158)
Total net deferred tax assets	$ 61,244,022	$ 91,162,789	$ 93,639,582
Less Valuation Allowance	$(61,244,022)	$(85,280,936)	$(90,963,173)
	$ -	$ 5,881,853	$ 2,676,409

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to tax examinations for periods post 2005 by federal, state and local tax authorities for various tax liabilities incurred by the parent entity and its subsidiaries, including any discontinued businesses. The amount of any tax assessments and penalties may be material and may negatively impact the Company's operations. Given the uncertainty in the amount and the difficulty in estimating the probability of the assessments arising from future tax examinations, the Company has not made any accruals for such tax contingencies.

For the twelve months ended September 30, 2013, the net deferred tax assets increased by $5,881,853. This increase was primarily the result of the reduction in the valuation allowance against the net deferred tax asset.

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carry-forward. There has been significant positive evidence established by the Company to justify that only a partial valuation allowance is necessary. The Company has shown consistent profitability over the past three years. Management also projects continued taxable income. Management believes it will be able to recognize a portion of its NOLs over the coming years. A valuation allowance of $61,244,042 has been established against the net deferred tax asset of $61,244,042 as of September 30, 2013.

Effective October 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN48"). FIN48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ended September 30, 2013, 2012 or 2011.

At September 30, 2013, the Company had a net operating loss carry-forward for federal income tax purposes of approximately $176 million that expires from 2020 through 2028. The use of approximately $36 million of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

11. Tender Offer

The Company used approximately $25.2 million of the unrestricted cash at ALJ following the sale of KES to repurchase 30,000,000 shares of its common stock from its stockholders at $0.84 per share using a self-tender offer (the "Tender Offer"). The Tender Offer expired on February 8, 2013 and the Company closed the Tender Offer on February 12, 2013.

12. Stock Options and Share-based Compensation

The Company accounts for stock-based compensation including stock options under the fair value method. The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes-Merton option pricing formula.

The following summarizes stock option activity during the twelve months ended September 30, 2013, 2012, and 2011.

	Number of Shares	Weighted-Average Exercise Price
Balance at September 30, 2010	2,800,000	$0.38
Exercised	-	-
Forfeited or expired	-	-
Balance at September 30, 2011	2,800,000	$0.38
Exercised	-	-
Forfeited or expired	(200,000)	$0.30
Balance at September 30, 2012	2,600,000	$0.39
Exercised	(400,000)	0.23
Granted	1,175,000	1.00
Balance at September 30, 2013	3,375,000	$0.62

The following table summarizes outstanding and exercisable options for the twelve months ended September 30, 2013, 2012, and 2011.

		Options Outstanding			Options Exercisable	
Fiscal Year Ended	Range of Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
2013	$0.40 - $1.00	3,375,000	5.5 years	$0.62	2,200,000	$0.42
2012	$0.23 - $0.59	2,600,000	4.9 years	$0.39	2,600,000	$0.39
2011	$0.23 - $0.59	2,800,000	5.5 years	$0.42	2,800,000	$0.42

The Company granted 1,175,000 options during the year ended September 30, 2013. The Company did not grant any stock options or warrants during the twelve months ended September 30, 2012, and 2011. Stock option expense for the twelve months ended September 30, 2013, 2012, and 2011 was $0, $0, and $125,203.

During the twelve months ended September 30, 2013, the Company issued 76,215 restricted shares to the Board of Directors as part of their compensation. These restricted shares vest monthly over a one year period. The restricted shares were issued at an average weighted average share price of $0.82 per share. As of September 30, 2013, 19,054 of these restricted shares were fully vested.

During the twelve months ended September 30, 2011, the Company issued 105,930 restricted shares to the Board of Directors as part of their compensation. These restricted shares vested monthly over a one year period. The restricted shares were issued at an average weighted average share price of $0.38 per share. All of these restricted shares were fully vested as of September 30, 2013.

Share based compensation expense related to the issuance of restricted stock grants during the twelve months ended September 30, 2013, 2012, and 2011 was $62,500, $18,273, and $29,528.

13. Uncertainties and Contingencies

As of December 31, 2013, management was not aware of any legal contingencies involving the Company. In the opinion of management, any potential matters involve such amounts that unfavorable disposition would not have a material adverse effect on the financial position or results of operations of the Company.

14. Related Party Transactions

Prior to ALJ's sale of KES, KES was party to a Management Agreement with Pinnacle. Pinnacle was entitled to a monthly management fee and a management incentive fee as provided in the Management Agreement. John Scheel, a director of the Company and formerly a director of KES, is a principal of and receives compensation from Pinnacle. For the twelve months ended September 30, 2013, 2012, and 2011, Pinnacle's management fees were $5,275,000, $2,405,096, and $2,823,355, respectively. The Pinnacle Management fees for the year ended September 30, 2013 included $5,100,000 in termination fees. In addition, the Management Agreement provided for an automatic termination following a change of control of KES, with a termination fee payable in an amount equal to two times the sum of the monthly management fees and management incentive fees paid during the prior 12-month period. In connection with the sale of KES, the Management Agreement terminated as of the merger closing and Pinnacle received a termination payment of $5,146,000, which reflects a discount of approximately $0.5 million agreed to by Pinnacle by utilizing the 2012 fiscal results instead of the 2011 fiscal results in calculating such fee.

Jess Ravich, who is the Executive Chairman of the Company, a director of Faneuil and formerly a director of KES, received as a result of the sale, (i) $3.3 million as payment of principal and accrued interest on the 8% Subordinated Loans, (ii) $1.3 million related to the sale of 1,618 shares of Series B Common Stock of KES, and (iii) $2.4 million related to the retirement of the Series A Preferred Stock of KES, including accrued dividends thereon. Additionally, Libra Securities Holdings, LLC, an affiliate of Mr. Ravich, received as a result of the sale, (i) $3.9 million as payment of principal and accrued interest on the 8% Subordinated Loans, (ii) $2.9 million related to the sale of 3,657 shares of Series B Common Stock of KES, and (iii) $1.4 million related to the retirement of the Series A Preferred Stock of KES, including accrued dividends thereon.

Robert Scott Fritz, a director of the Company, received as a result of the sale, (i) $186,544 as payment of principal and accrued interest on the 8% Subordinated Loans, and (ii) $114,185 related to the sale of 144 shares of Series B Common Stock of KES.

Hal G. Byer, a director of the Company, received as a result of the sale, (i) $166,437 as payment of principal and accrued interest on the 8% Subordinated Loans, and (ii) $62,643 related to the sale of 79 shares of Series B Common Stock of KES.

On February 15, 2011, ALJ repurchased 69,400 shares of its 4% Series A Preferred Stock, plus accrued dividends thereon for an aggregate consideration of $277,600 (the "2011 Stock Repurchase"), from three individuals, two of whom are related parties. The repurchased stock had a face value of $277,600 plus accrued dividends thereon of approximately $147,941.

On June 16, 2011, ALJ exchanged 305,156 shares of its 4% Series A Preferred Stock (the "Exchanged Stock"), plus accrued dividends thereon for aggregate consideration of 3,774,632 shares of ALJ's Common Stock (the "Stock Exchange"). Following the Stock Exchange, there are no shares of 4% Series A Preferred Stock outstanding. The aggregate liquidation value of the 4% Series A Preferred Stock outstanding at June 16, 2011 was approximately $1,887,316. The Stock Exchange took place at an implied price of $0.50 per share. All 305,156 shares of Exchanged Stock were held by an affiliated party.

15. Subsequent Events

On October 18, 2013, ALJ and Ms. Van Buren acquired all of the capital stock of Faneuil, Inc. ("Faneuil") from Harland Clarke Holdings Corp., a wholly owned subsidiary of MacAndrews & Forbes Holdings Inc. ("Harland Clarke"), pursuant to a stock purchase agreement, dated as of October 18, 2013, by and among ALJ, Anna Van Buren, Faneuil's Chief Executive Officer, as an individual purchaser, and Harland Clarke. The aggregate consideration for the acquisition of all of Faneuil's outstanding stock was $53 million, consisting of $25 million in cash, a contribution of $500,000 in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at $2,500,000 and a seller note for $25 million (the "Harland Clarke Note"). ALJ acquired 96.43% of Faneuil's outstanding capital stock and the remaining 3.57% was acquired by Ms. Van Buren. Following the closing of ALJ's acquisition of Faneuil on October 18, 2013, ALJ sold 3,286 shares of Faneuil's common stock to Tarsha Leherr, Faneuil's Vice President of Operations. As a result, as of the date of this Report, ALJ, Ms. Van Buren and Ms. Leherr hold, respectively, 883,857, 32,857 and 3,286 shares of Faneuil's common stock, for a total of 920,000 shares of Faneuil's common stock issued and outstanding. The maximum number of shares of common stock that Faneuil is authorized to issue is 1,000,000 shares.

The Harland Clarke Note provides for a two-year maturity with interest in the first year at five percent (5%) and interest in the second year at seven and one half percent (7.5%). The Harland Clarke Note has mandatory amortization of $1,000,000 per quarter with an annual cash flow sweep based on a defined free cash definition. Additionally, Faneuil's obligations under the Harland Clarke Note are secured by a pledge of ALJ's stock of Faneuil and the stock of Faneuil's subsidiaries, subject to certain limitations.

Further, a Voting and Investor Rights Agreement was signed on October 18, 2013, by and among ALJ, Harland Clarke, Faneuil, Ms. Van Buren and Mr. Ravich, in his capacity as a stockholder of ALJ, which provides: (i) Harland Clarke certain rights to nominate a director to ALJ's Board, (ii) that Mr. Ravich shall vote his shares of ALJ common stock in favor of such nominee, (iii) certain rights of first refusal, co-sale and piggyback registration with respect to ALJ's shares of common stock held by Harland Clarke, and (iv) certain information rights with respect to Faneuil. Additionally, a Separation Agreement was signed on October 18, 2013, by and among ALJ, Harland Clarke, Faneuil and Scantron Corporation ("Scantron"), which agreement unwound certain affiliate arrangements between Faneuil, on the one hand, and Harland Clarke and Scantron, on the other hand, and provides for certain transition services to be provided by Scantron to Faneuil.

Faneuil will continue under the leadership of Ms. Van Buren and the remainder of its management team. In connection with the acquisition of Faneuil, ALJ's Board was expanded from five to seven members. Ms. Van Buren was appointed to the Board as a Class III director. In addition, Michael Borofsky, a representative of Harland Clarke, was appointed to the Board as a Class III director.

On October 18, 2013, Faneuil also entered into a Loan and Security Agreement by and among Faneuil and its wholly owned subsidiary, Faneuil Toll Operations LLC, as borrowers, and M&T Bank, providing for an asset based $5,000,000 revolving line of credit (the "M&T Credit Facility"). The revolving loans are subject to customary conditions precedent as well as a borrowing base limitation. In addition to the revolving loans, the M&T Credit Facility also provides for the issuance of letters of credit, which, together with all outstanding revolving loans, are subject to a dollar cap equal to the lesser of the borrowing base and $5,000,000. The M&T Credit Facility bears interest at a variable rate based on one-month LIBOR. The M&T Credit Facility was undrawn at closing and remains undrawn as of the date of this Report. The M&T Credit Facility is secured by substantially all of the assets of Faneuil and Faneuil Toll Operations LLC and contains customary representations, warranties and covenants, including a financial covenant requiring the borrowers to maintain a certain debt service coverage ratio. The M&T Credit Facility also contains customary events of default and indemnification obligations of Faneuil and Faneuil Toll Operations LLC.

A Subordination and Intercreditor Agreement was also signed on October 18, 2013, by and among Faneuil, Faneuil Toll Operations LLC, M&T Bank and Harland Clarke, pursuant to which the Harland Clarke Note was subordinated to the M&T Credit Facility.

On October 18, 2013, the board of directors of Faneuil adopted the Faneuil, Inc. 2013 Stock Incentive Plan (the "Plan"). The maximum aggregate number of shares of Faneuil's common stock which may be issued pursuant to awards under the Plan is 80,000 shares.

Also on October 18, 2013, the board of directors of Faneuil granted Ms. Van Buren an option to purchase 60,000 shares of Faneuil's common stock under the Plan, which option is described under "Certain Relationships and Related Transactions" above.

PART E

EXHIBITS

Exhibit No.	Description
1	First Amendment to Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 1, 2010 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2010 available at www.pinksheets.com).
2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2009 available at www.pinksheets.com).
3	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006 (incorporated by reference to Exhibit 2 to the Company's Annual Report for the year ended September 30, 2006 available at www.pinksheets.com).
4	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com).
5	Rights Agreement dated May 13, 2009 by and between ALJ Regional Holdings, Inc. and American Stock Transfer and Trust Company, LLC (incorporated by reference to Annex B to the Company's Proxy Statement dated May 15, 2009 available at www.pinksheets.com).
6	Agreement and Plan of Merger dated November 18, 2012 by and among KES Acquisition Company, ALJ Regional Holdings, Inc., Optima Specialty Steel, Inc. and KES Optima Acquisition Inc. (incorporated by reference to Exhibit 1 to the Company's Current Report dated November 18, 2012 available at www.pinksheets.com).
7	Form of Stockholder Support Agreement dated November 18, 2012 by and among Optima Specialty Steel, Inc. and the stockholders of ALJ Regional Holdings, Inc. listed on Schedule A thereto (incorporated by reference to Exhibit 2 to the Company's Current Report dated November 18, 2012 available at www.pinksheets.com).
8	Form of Voting and Tender Agreement dated November 18, 2012 by and among ALJ Regional Holdings, Inc. and the stockholders of ALJ Regional Holdings, Inc. a signatory thereto (incorporated by reference to Exhibit 3 to the Company's Current Report dated November 18, 2012 available at www.pinksheets.com).
9*	Loan and Security Agreement, dated October 18, 2013, by and among Faneuil, Inc., Faneuil Toll Operations LLC and M&T Bank.

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* Filed herewith.