ALJ REGIONAL HOLDINGS, INC.

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Quarterly Report for the
Period Ended
December 31, 2013

ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report for the Period Ended December 31, 2013 (the "Report") regarding future financial performance, results and conditions and other statements that are not historical facts, including, among others, statements regarding demand for the services offered by Faneuil, the ability of the Company's stockholder rights plan to protect its net operating losses, the Company not paying cash dividends in the foreseeable future, 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," "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.

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ITEM 1. EXACT NAME OF THE ISSUER AND THE ADDRESS OF ITS PRINCIPAL EXECUTIVE OFFICES

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, 2006. The Company's name was changed to ALJ Regional Holdings, Inc. on October 23, 2006.

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

ITEM 2. SHARES OUTSTANDING

The Company has only two classes of securities; common stock and preferred stock, the details of which are disclosed in the table below.

	Common Stock Period End Date			Preferred Stock Period End Date		
	December 31, 2013	September 30, 2013	September 30, 2012	December 31, 2013	September 30, 2013	September 30, 2012
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	29,744,913	26,744,913	57,246,598	0	0	0

As described in more detail below, on October 18, 2013, the Company issued 3,000,000 shares of its common stock as partial consideration for the acquisition of Faneuil, Inc. ("Faneuil").

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 December 31, 2013, there were 210 holders of record of the Company's common stock.

ITEM 3. INTERIM FINANCIAL STATEMENTS

EXPLANATORY NOTE

As described in more detail under Note 3 below, on October 18, 2013, ALJ acquired substantially all of the capital stock of 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. 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. Therefore, the interim financial statements set forth below reflect the operations of ALJ for the period of October 1, 2013 through October 18, 2013 and the consolidated operations of ALJ and Faneuil for the period of October 19, 2013 through December 31, 2013.

Further, as described in more detail under Note 6 below, effective February 5, 2013, ALJ sold its majority owned operating subsidiary KES Acquisition Company, a Delaware corporation ("KES"), which owned and operated a steel mini-mill in Ashland, Kentucky (the "Mill"). Therefore, the interim financial statements reflect KES as a discontinued operation. Because ALJ no longer owns KES, KES' operations have not been included in ALJ's consolidated financial statements since February 5, 2013, and will not be included in ALJ's consolidated financial statements for future periods.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	December 31, 2013	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,289,113	$ 27,825,326
Accounts receivable, less allowance for doubtful accounts of $129,837 at December 31, 2013 and $0 at September 30, 2013	24,336,946	-
Prepaid expenses and other current assets	6,465,857	129,492
Deferred taxes	932,000	-
Total current assets	$ 37,023,916	$ 27,954,818
Property, plant and equipment	16,969,188	-
Less accumulated depreciation and amortization	(8,053,083)	-
Property, plant and equipment, net	8,916,105	-
Other assets:		
Goodwill	14,160,855	-
Intangible Assets	15,565,961	-
Other Assets	152,411	-
Investment in Bellator	102,077	102,077
Total other assets	29,981,304	102,077
Total assets	$ 75,921,325	$ 28,056,895

(continued)

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(continued)

	December 31, 2013	September 30, 2013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,302,150	$ -
Accrued expenses	6,491,571	-
Income taxes payable	122,432	-
Current portion of note payable	4,000,000	-
Current portion of deferred revenue	5,355,204	-
Current portion of capital lease obligations	763,544	-
Other liabilities	319,234	-
Liabilities related to discontinued operations	298,466	298,466
Total current liabilities	$ 18,652,601	$ 298,466
Non-current liabilities:		
Workman's compensation reserve	1,427,307	-
Unearned revenue	351,731	-
Note payable, less current portion	21,000,000	-
Deferred revenue, less current portion	974,816	-
Capital lease obligations, less current portion	9,456	-
Deferred tax liability	114,000	-
Other Liabilities	374,481	-
Minority interest	1,160,465	-
Total liabilities	$ 44,064,857	$ 298,466
Commitments and contingencies		
Stockholders' equity (deficiency):		
Common stock, $0.01 par value; authorized - 100,000,000 shares; 29,744,913 issued and outstanding at December 31, 2013 and 26,744,913 issued and outstanding at September 30, 2013	297,612	267,612
Additional paid-in capital	265,353,706	262,755,790
Accumulated deficit	(233,765,823)	(235,235,946)
Treasury stock – 25,000 shares, at cost	(29,027)	(29,027)
Total stockholders' equity	31,856,468	27,758,429
Total liabilities and stockholders' equity	$ 75,921,325	$ 28,056,895

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended December 31,	
	2013	**2012**
NET SALES	$ 25,833,314	$ -
COSTS AND EXPENSES		
Cost of sales	20,261,121	-
Selling, general and administrative	3,661,505	447,710
Total cost of operations	23,922,626	447,710
(Loss) Income from operations	1,910,688	(447,710)
OTHER INCOME (EXPENSE)		
Interest expense	(264,528)	-
Interest and dividend income	6,867	7,394
Total other income (expense)	(257,661)	7,394
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, DISCONTINUED OPERATIONS AND MINORITY INTEREST	1,653,027	(440,316)
INCOME TAXES ON CONTINUING OPERATIONS	(122,432)	-
INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS AND MINORITY INTEREST	1,530,595	(440,316)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	-	(1,064,792)
INCOME TAXES ON DISCONTINUED OPERATIONS	-	(4,398)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAXES	-	(1,069,190)
INCOME (LOSS) BEFORE MINORITY INTEREST	1,530,595	(1,509,506)
MINORITY INTEREST	(60,472)	-
NET INCOME (LOSS)	$ 1,470,123	$ (1,509,506)
NET INCOME (LOSS) PER COMMON SHARE -		
Basic	$0.05	($0.03)
Dilutive	$0.05	($0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	28,244,913	57,346,598
Dilutive	31,619,913	59,546,598

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)
THREE MONTHS ENDED DECEMBER 31, 2013

	Common Stock		Additional Paid-in	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balances at September 30, 2013	26,744,913	$ 267,612	$ 262,755,790	$ (235,235,946)	$ (29,027)	$ 27,758,429
Issuance of stock for the purchase of Faneuil	3,000,000	30,000	2,470,000			2,500,000
Share-based compensation: Issuance of options			127,916			127,916
Net income				1,470,123		1,470,123
Balances at December 31, 2013	29,744,913	$ 297,612	$ 265,353,706	$ (233,765,823)	$ (29,027)	$ 31,856,468

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,470,123	$ (1,509,506)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	450,144	62,978
Stock-based compensation	127,916	-
Amortization of deferred loan costs	-	34,595
Provision for bad debts	-	(165,460)
Minority interest – related parties	60,465	(205,957)
Changes in operating assets and liabilities:		
(Increase) decrease in -		
Accounts receivable, net	(7,767,299)	2,751,408
Inventories	-	(2,216,864)
Other assets	(73,116)	-
Prepaid expenses and other receivables	(1,067,681)	366,786
Increase (decrease) in -		
Accounts payable	377,504	1,709,661
Accrued expenses	1,157,655	(1,185,000)
Workman's compensation reserve	162,503	-
Deferred revenue	1,886,046	-
Unearned revenue	(13,725)	-
Other liabilities	755,285	-
Capital lease obligations	(74,262)	-
Income taxes payable	122,432	(4,007)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,426,010)	(361,366)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Faneuil	(19,426,081)	-
Sale of minority interest in Faneuil	1,100,000	-
Purchase of equipment	(1,784,122)	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(20,110,203)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of stock options	-	46,000
Repayments on term loans	-	(500,000)
Net repayments under secured line of credit	-	(1,439,906)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	-	(1,893,906)
NET CASH (USED IN) PROVIDED BY OPERATING, INVESTING AND FINANCING ACTIVITIES	-	(2,255,272)
CASH AND CASH EQUIVALENTS		
Net (decrease) increase	(22,536,213)	(2,255,272)
Balance at beginning of period	27,825,326	2,823,576
Balance at end of period	5,289,113	568,304
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	257,714	147,510

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2013

1. Organization and Basis of Presentation

Basis of Presentation

The accompanying consolidated financial statements include the accounts of ALJ Regional Holdings, Inc. ("ALJ" or the "Company"), and its direct and indirect wholly and majority-owned subsidiaries. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. All inter-company items and transactions have been eliminated in consolidation.

On October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil, Inc. (including its subsidiaries, "Faneuil"). 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. ALJ has included the operations of Faneuil in its consolidated financial statements since October 19, 2013 (see Note 3), which represents the only active business segment in which the Company currently operates.

Effective February 5, 2013, ALJ sold its majority owned subsidiary KES, which owned and operated a steel mini-mill (See Note 6). Therefore, the interim financial statements reflect KES as a discontinued operation. Because ALJ no longer owns KES, KES' operations have not been included in ALJ's consolidated financial statements since February 5, 2013, and will not be included in ALJ's consolidated financial statements for future periods.

The accompanying condensed consolidated financial statements are unaudited, but in the opinion of Company management, contain all adjustments, which include normal recurring accruals, necessary to present fairly the financial position at December 31, 2013 and September 30, 2013, the results of operations for the three months ended December 31, 2013 and 2012, and the cash flows for the three months ended December 31, 2013 and 2012.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted, although management of the Company believes that the disclosures contained in these financial statements are adequate to make the information presented therein not misleading.

Liquidity and Capital Resources

The Company recognized net income of $1.5 million for the three months ended December 31, 2013 and used cash flow from investing activities of $20.1 million, primarily related to the purchase of Faneuil of $19.4 million, and used cash from operating activities of $2.4 million. The Company had an accumulated deficit of $233.8 million and stockholder's equity of $31.9 million at December 31, 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 October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil from 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 and Ms. Van Buren collectively acquired all of the capital stock of Faneuil from Harland Clarke for aggregate consideration of $53.0 million, consisting of $25.0 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 $25.0 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.

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.

ALJ believes that its current cash resources will be adequate to fund its operations through December 31, 2014. However, to the extent 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.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding company, whose primary asset is substantially all of the outstanding capital stock of Faneuil, a leading provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries.

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 the 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.

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. 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.

Property, Plant and Equipment

The Company records property, plant and equipment at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures for additions, improvements and replacements that extend the useful life of an asset are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of such assets. The Company eliminates cost and accumulated depreciation applicable to assets retired or otherwise disposed of from the accounts and reflects any gain or loss on such disposition in operating results.

Depreciation is provided principally over the following useful lives:

Computer and office equipment	3–5 years
Computer software	3–6 years
Furniture and fixtures	7–10 years
Leasehold improvements	Lease term
Equipment under capital leases	Lease term

Assets under capital leases include computer equipment and software. Amortization of capital leases is included in depreciation expense in the consolidated statements of income.

Revenue Recognition

Revenues associated with outsourcing services are generally recognized by the Company during the period in which the services are rendered. Revenues from time and material contracts are recognized at the contracted rates as labor hours and direct expenses are incurred and charged to costs of revenue. Revenue for call center contracts is recognized at the time calls are received based on the contracted rate per call. Revenues are generally based on staff hours, call time, call volume, or number of transactions processed, and are presented net of any allowance or discounts. Payments for development activities are recognized as revenue when earned, over the period of effort.

Revenues from non-refundable up-front payments attributable to contract implementation, though not tied to achieving a specific performance milestone, are recognized over the initial term of the contract. At-risk milestone payments, which are based on achieving a specific performance milestone, are recognized as revenue when the milestone is achieved and the related payment is due, providing there is no future service obligation associated with that milestone.

Deferred revenue represents amounts billed to the customer in excess of amounts earned. In situations where the Company receives payment in advance of the performance of services, such amounts are recorded as deferred revenue and recognized as revenue during the period in which the related services are performed.

Receipt of funding under grant agreements are evaluated for appropriate recognition as revenue, based on the specific terms of the related grant or agreement. Grant funding received in advance of compliance with the grant conditions is recorded as deferred revenue. The Company recognizes grant income once it has complied with the conditions attached to the grant received.

Insurance Reserves

The Company maintains general liability insurance coverage, which is subject to certain deductibles. The Company is self-insured for workers' compensation claims up to $250,000 per incident, and maintains insurance coverage for costs above the specified limit. The Company is self-insured for health insurance claims up to $150,000 per incident, and maintains insurance coverage for costs above the specified limit. Reserves have been provided for workers' compensation and health claims based upon insurance coverages, third party actuarial analysis and management's judgment.

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.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's 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 the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its 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.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including the collectability of receivables and the realizability of assets such as fixed assets, goodwill, other intangible assets and deferred taxes. Actual results could differ from such estimates.

Concentrations

The Company maintains its cash balances with a number of financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times these balances are in excess of the FDIC insured balances.

For the three months ended December 31, 2013, the Company had one customer that accounted for approximately 42.5% of net sales, of which approximately $6.9 million was included in accounts receivable at December 31, 2013.

Earnings Per Share

Basic net income or loss per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding for the period. Nonvested 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 diluted weighted average shares for the three months ended December 31, 2013:

	Three Months Ended December 31,	
	2013	**2012**
Weighted average shares outstanding, basic	28,244,913	57,346,598
Dilutive effect of:		
Options to purchase common stock	3,375,000	2,200,000
Weighted average shares outstanding, diluted	31,619,913	59,546,598

Recently Issued or Adopted Accounting Standards

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This new standard requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefits. This did not have a material impact on the condensed consolidated financial statements.

3. Acquisition of Faneuil

On October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil from 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 and Ms. Van Buren collectively acquired all of the capital stock of Faneuil from Harland Clarke for aggregate consideration of $53.0 million, consisting of $25.0 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 $25.0 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, ALJ holds substantially all of the capital stock of Faneuil, and Ms. Van Buren and Ms. Leherr hold a minority interest of Faneuil. 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.

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.

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.

4. Related Party Transactions

On October 18, 2013, concurrent with ALJ's acquisition of Faneuil, Faneuil entered into an employment agreement with Ms. Van Buren. The term of Ms. Van Buren's employment under the employment agreement will continue until December 31, 2018. Pursuant to her employment agreement, Ms. Van Buren receives an annual salary of $520,000 and is eligible to earn an annual bonus equal to ten percent (10%) of the Company's defined EBITDA, before any bonus amount owed to Ms. Van Buren, in excess of $5,000,000. If Ms. Van Buren's employment is terminated without cause or by Ms. Van Buren for good reason, Ms. Van Buren will be eligible to receive her base salary for the greater of one year or one-half of the remaining term of the employment agreement, and the full annual bonus for the year in which such termination occurs if Ms. Van Buren had been otherwise entitled to the bonus for such year had she still been employed when such bonus would have been paid.

Also on October 18, 2013, the board of directors of Faneuil granted an option to purchase 60,000 shares of Faneuil's common stock to Ms. Van Buren. 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 accelerates upon a change of control of Faneuil.

On December 19, 2013, the Board granted an option to purchase 100,000 shares of our common stock to T. Robert Christ, our Chief Financial Officer. Such option vests and became exercisable monthly on a pro rata basis over three years. The exercise price for such option is $1.60 per share. Such option expires on December 18, 2023.

5. Discontinued Operations Unrelated to KES

As of December 31, 2013 and September 30, 2013, the Company maintained an estimated accrual of liabilities associated with discontinued operations other than KES of $298,000, remaining from its previously discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the previously discontinued businesses.

6. Discontinued Operations Related to KES

On November 18, 2012, ALJ and KES entered into a definitive merger agreement (the "Merger Agreement") for the sale of KES to Optima Specialty Steel, Inc. ("Optima," and such merger, the "Merger"). The Merger 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. On February 5, 2013, ALJ sold KES to Optima for $114.4 million in cash.

As a result, KES is now being reported as a Discontinued Operation on ALJ's financial statements. KES recognized $30.6 million in revenue for the three months ended December 31, 2013 and recognized a loss of $1.1 million during the three months ended December 31, 2013.

As a result of the sale of KES, ALJ recognized a gain of approximately $76.8 million, which was partially 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, 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).

Jess Ravich, who is the Executive Chairman of the Company and was 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. 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.

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.

As a result of the sale of KES, Pinnacle Steel, LLC, a company affiliated with John Scheel, a director of the Company, received a termination fee equal to $5.1 million.

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, (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.

7. Accounts Receivable

Accounts Receivable at December 31, 2013 and September 30, 2013 consisted of the following:

	December 31, 2013 Unaudited	September 30, 2013
Accounts receivable	$ 21,869,805	$ ---
Unbilled receivables	2,596,978	---
Less: Allowance for doubtful accounts	(129,837)	
Total	$ 24,336,946	$ ---

8. Property, Plant and Equipment

Property, plant and equipment at December 31, 2013 and September 30, 2013 consisted of the following:

	December 31, 2013 Unaudited	September 30, 2013
Computer and office equipment	$ 5,837,409	$ ---
Computer software	3,412,453	---
Furniture and fixtures	2,244,787	---
Leasehold improvements	2,784,773	---
Construction in progress	2,689,766	---
Total	16,969,188	---
Less: Accumulated depreciation and amortization	(8,0583,083)	---
	$ 8,916,105	---

Depreciation expense was $436,091 for the three months ended December 31, 2013.

9. Line of Credit

On October 18, 2013, Faneuil 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. As of December 31, 2013, there were no amounts outstanding under the line of credit.

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.

10. Note Payable

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. As of December 31, 2013, the balance on the note payable was $25.0 million not including accrued interest of $374,481.

11. Commitments and Contingencies

The Company leases real estate, equipment, and vehicles under noncancelable operating leases. Future minimum payments under noncancelable operating leases with initial or remaining terms of one year or more are presented below:

2014	$2,379,743
2015	1,782,242
2016	1,415,029
2017	1,246,136
2018	573,524
Thereafter	48,885
	$7,445,559

During the three months ended December 31, 2013, rental expense under operating leases was $349,365.

The Company also leases equipment under noncancelable capital leases. Future minimum payments under noncancelable capital leases with initial or remaining terms of one year or more are presented below and are included in current and noncurrent other liabilities in the consolidated balance sheet:

2014	$354,228
2015	9,504
Total minimum payments required	363,732
Less executory costs	28,517
Net minimum lease payments	335,215
Less imputed interest at rates ranging from 0% to 5.22%	6,526
Present value of net minimum lease payments	$328,689

12. Income Taxes

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.

The Company maintains a full valuation allowance on its deferred tax assets because it is unable to conclude that it is more likely than not that it would realize the tax benefits of these deferred tax assets. As of December 31, 2013 and September 30, 2013, the net deferred tax asset is $0.

In assessing the realization of the remaining 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 components

of the deferred tax assets are the net operating loss carryforwards. The Company has decided to establish a full valuation allowance against the remaining balance of the deferred tax assets. A valuation allowance of $60.0 million has been established against the net deferred tax asset of $60.0 million as of December 31, 2013 and September 30, 2013.

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 December 31, 2013 and September 30, 2013, respectively.

At December 31, 2013, the Company has net operating loss carryforwards for federal income tax purposes of approximately $176 million that expire from 2020 through 2028. The use of approximately $36 million of these net operating losses 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 ("AMT") rules could adversely affect the Company's ability to utilize these net operating losses.

The federal income tax provision is computed by applying the following rates to taxable income before income taxes for the three months ended December 31, 2013:

	2013
Tax at federal statutory rate	34.0%
Tax rate offset by our NOLs	(34.0%)
AMT rate on taxable income	2.0%
	2.0%

13. Share-based Compensation and Stock Options

ALJ

The Company determines the fair value of all stock-based compensation, including stock options and warrants, by using the Black-Scholes option-pricing model. Included in the selling, general and administrative expenses for the three months ended December 31, 2013 and 2012, the Company recognized share-based compensation expense of $20,350 and $0, respectively.

All share-based payments to employees are recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. The Company issued options to purchase 100,000 shares of common stock during the three months ended December 31, 2013. These options will begin vesting on January 1, 2014. For stock options granted during the three months ended December 31, 2013, the Company computed volatility of 807% and a risk-free interest rate of 0.70%. Volatility was computed over the most recent period commensurate with the expected term of the options. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the stock options. The Company has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly uses an expected dividend yield of zero.

The summary of stock option activity for the three months ended December 31, 2013 is as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term
Balance outstanding as of September 30, 2013	3,375,000	$0.62	4.9 years
Issued	100,000	$1.60	10.0 years
Balance outstanding as of December 31, 2013	3,475,000	$0.65	5.4 years
Options vested as of December 31, 2013	3,375,000	$0.62	4.9 years

Faneuil

On October 18, 2013, the board of directors of Faneuil adopted the Faneuil, Inc. 2013 Stock Incentive Plan (the "Plan"). The aggregate number of shares of Faneuil's common stock which may be issued pursuant to awards under the Plan is 80,000 shares. Faneuil recognized share-based compensation expense of $107,566, included in the selling, general and administrative expenses for the three months ended December 31, 2013.

On October 18, 2013, the board of directors of Faneuil granted an option to purchase 60,000 shares of Faneuil's common stock under the Plan to the chief executive officer of Faneuil. 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 the chief executive officer's continuous service to Faneuil. Such option expires on October 18, 2023. For stock options granted by Faneuil during the three months ended December 31, 2013, the Company computed volatility of 26.54% and a risk-free interest rate of 0.33%. Volatility was computed based on similar public company's volatility over the most recent period commensurate with the expected term of the stock options. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options. Faneuil has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly uses an expected dividend yield of zero.

14. 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.

ITEM 4. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

GENERAL OVERVIEW

Commencing October 18, 2013, the Company has included the operations of Faneuil, which represents the only business segment in which the Company currently operates, in its consolidated financial statements. For historical purposes, the Company included KES as a discontinued operation through February 5, 2013, which was the date on which ALJ completed its sale of KES.

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.

Revenue Recognition

Revenues associated with outsourcing services are generally recognized by the Company during the period in which the services are rendered. Revenues from time and material contracts are recognized at the contracted rates as labor hours and direct expenses are incurred and charged to costs of revenue. Revenue for call center contracts is recognized at the time calls are received based on the contracted rate per call. Revenues are generally based on staff hours, call time, call volume, or number of transactions processed, and are presented net of any allowance or discounts. Payments for development activities are recognized as revenue when earned, over the period of effort.

Revenues from non-refundable up-front payments attributable to contract implementation, though not tied to achieving a specific performance milestone, are recognized over the initial term of the contract. At-risk milestone payments, which are based on achieving a specific performance milestone, are recognized as revenue when the milestone is achieved and the related payment is due, providing there is no future service obligation associated with that milestone.

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.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's 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 the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its 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 based on assessment of many factors, including past experience and interpretation of tax law applied to the facts of each matter.

Results of Operations for the Three Months Ended December 31, 2013 and 2012

The following table sets forth selected unaudited consolidated statements of operations data for each of the periods indicated on an actual basis and, with respect to the three months ended December 31, 2013, as a percentage of total revenues.

	Three Months Ended December 31,				
	2013				2012
Net sales	$	25,833,314	100%	$	-
Cost of sales		20,261,121	79%		-
Gross profit		5,572,193	21%		-
Selling, general and administrative		3,661,505	14%		447,710
Income (Loss) from operations		1,910,688	7%		(447,710)
Dividend and interest income		6,867	-		7,394
Interest expense		(264,528)	(1%)		-
Income (Loss) from Continuing Operations		1,653,027	6%		(440,316)
Income taxes on Continuing Operations		(122,432)	-		-
Income (Loss) from Discontinued Operations (Net of income taxes)		-	-		(1,069,190)
Income (Loss) before Minority Interest		1,530,595	6%		(1,509,506)
Minority Interest		(60,472)	-		-
Net income (Loss)		1,470,123	6%		(1,509,506)

For the three months ended December 31, 2013 and 2012

Net Sales

Net sales for the three months ended December 31, 2013 were $25.8 million, an increase of $25.8 million over net sales of $0 for the three months ended December 31, 2012. The increase in net sales was attributable to the operations of Faneuil, which was not part of the Company's operations during the three months ended December 31, 2012. Net sales for the period were generated from six verticals with the following contribution levels: Manual Toll Collection, 34.7%; Electronic Toll Collection, 25.6%; Healthcare, 16.4%; Government/Municipal, 11.8%; Utilities, 9.7%; and Commercial, 1.8%. The Company experienced an increase in net sales volumes within the healthcare vertical during the period, and commenced implementation of two new programs that will recognize revenue in 2014.

Cost of Sales

Cost of sales for the three months ended December 31, 2013 were $20.3 million, an increase of $20.3 million over cost of sales of $0 for the three months ended December 31, 2012. The increase in cost of sales was attributable to the operations of Faneuil, which was not part of the Company's operations during the three months ended December 31, 2012.

Gross Profit

Gross profit for the three months ended December 31, 2013 was $5.6 million, an increase of $5.6 million over gross profit of $0 for the three months ended December 31, 2012. The increase in gross profit was attributable to the operations of Faneuil, which was not part of the Company's operations during the three months ended December 31, 2012. Gross profit as a percentage of sales for the three months ended December 31, 2013 was 21.0%.

General and Administrative Expenses

General and administrative expenses for the three months ended December 31, 2013 were $3.7 million, an increase of $3.2 million over general and administrative expenses of $447,710 for the three months ended December 31, 2012. The increase was primarily attributable to the operations of Faneuil, which was not part of the Company's operations during the three months ended December 31, 2012.

Dividend and Interest Income

Dividend and interest income for the three months ended December 31, 2013 were $6,867, a decrease of $527 over dividend and interest income of $7,394 for the three months ended December 31, 2012. The amounts were similar.

Income (Loss) from Discontinued Operations

Loss from discontinued operations for the three months ended December 31, 2013 were $0, compared to a $1.1 million loss from discontinued operations for the three months ended December 31, 2012. The decrease was primarily attributable to the sale of KES during the year ended September 30, 2013.

Liquidity and Capital Resources – December 31, 2013

The Company recognized net income of $1.5 million for the three months ended December 31, 2013 and used cash from operating activities of $2.4 million and used cash from investing activities of $20.1 million, primarily related to the purchase of Faneuil. The Company had an accumulated deficit of $233.8 million and stockholders' equity of $31.9 million at December 31, 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 October 18, 2013, the Company acquired Faneuil for $53.0 million, consisting of $25.0 million in cash, a contribution of $500,000 in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at $2.5 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 $5.0 million senior secured revolving line of credit.

ALJ believes that its cash resources will be adequate to fund its operations through December 31, 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 three months ended December 31, 2013, the Company used $2.4 million from operating activities, primarily attributable to an increase in accounts receivable of $7.8 million and prepaid expenses of $1.1 million, partially offset by net income of $1.5 million and an increase in deferred revenue of $1.9 million and accrued expenses of $1.2 million.

Investing Activities

For the three months ended December 31, 2013, the Company used cash from investing activities of $20.1 million, primarily related to the purchase of Faneuil of $19.4 million, and the purchase of equipment of $1.8 million, partially offset by the sale of minority interest in Faneuil of $1.1 million.

Principal Commitments

At December 31, 2013, the Company's principal commitments consisted of the following obligations:

	Payments Due by Twelve Month Periods Ending December 31, (in thousands)					
Contractual cash obligations	**Total**	**2014**	**2015**	**2016**	**2017**	**Thereafter**
Note payable – Harland Clarke	25,000	4,000	21,000	---	---	---
Operating leases	7,444	2,379	1,782	1,415	1,246	622
Capital expenditures – customer programs	896	896				
Capital lease obligation	328	319	9	---	---	---
Total contractual cash obligations	$ 33,668	$ 7,594	$ 22,791	$ 1,415	$ 1,246	$ 622

Off-Balance Sheet Arrangements

The Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at December 31, 2013.

ITEM 5. LEGAL PROCEEDINGS

The Company is a defendant in actions for matters arising out of normal business operations. The Company concluded as of December 31, 2013 that no legal proceedings then pending or threatened will have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

ITEM 6. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 7. OTHER INFORMATION

None.

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. For the three months ended December 31, 2013, the Company had one customer that accounted for approximately 42.5% of net sales. 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 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") 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% stockholders, 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 December 31, 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 (the "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 December 31, 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.

ITEM 8. EXHIBITS

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

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	Loan and Security Agreement, dated October 18, 2013, by and among Faneuil, Inc., Faneuil Toll Operations LLC and M&T Bank (incorporated by reference to Exhibit 9 to the Company's Annual Report for the year ended September 30, 2013 available at www.pinksheets.com).

ITEM 9. CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Certification of the Chief Executive Officer

I, Jess Ravich, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended December 31, 2013;

2. Based on my knowledge, this disclosure statement 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 disclosure statement; and

3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the periods presented in this disclosure statement.

Date: February 15, 2014

/S/ Jess Ravich
Jess Ravich,
Executive Chairman

Certification of the Chief Financial Officer

I, T. Robert Christ, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended December 31, 2013;

2. Based on my knowledge, this disclosure statement 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 disclosure statement; and

3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the periods presented in this disclosure statement.

Date: February 15, 2014

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