ALJ REGIONAL HOLDINGS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2015	September 30, 2015
	(unaudited)	*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,815,186	$ 5,103,462
Accounts receivable, net	38,769,446	35,077,531
Inventories, net	5,718,705	6,173,177
Current portion of collateral deposits	-	2,000,000
Prepaid expenses and other current assets	4,508,005	3,666,463
Assets held for sale	688,106	688,106
Total current assets	**53,499,448**	**52,708,739**
Property, plant and equipment	49,245,460	50,259,549
Goodwill	52,522,675	52,522,675
Intangible assets, net	40,372,359	41,344,237
Deferred loan costs, net	3,523,926	3,674,816
Collateral deposits, less current portion	2,178,812	2,000,000
Other assets	395,592	391,952
Total assets	**$ 201,738,272**	**$ 202,901,968**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,347,302	$ 7,345,990
Accrued expenses	9,077,901	10,453,749
Income taxes payable	1,002,685	800,135
Deferred revenue and customer deposits	1,324,739	1,453,516
Current portion of term loans	7,875,000	7,875,000
Current portion of capital lease obligations	1,017,255	830,368
Current portion of workers' compensation reserve	968,668	1,026,868
Other current liabilities	1,245,310	470,934
Total current liabilities	**29,858,860**	**30,256,560**
Line of credit	908,007	21,411
Term loan payable, less current portion	93,187,500	95,156,250
Workers' compensation reserve, less current portion	1,985,066	1,984,866
Capital lease obligations, less current portion	1,240,609	1,107,615
Deferred tax liability	7,949,446	8,179,901
Other non-current liabilities	1,918,004	1,809,266
Total liabilities	**137,047,492**	**138,515,869**
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.01 par value; total authorized – 5,000,000 shares; 1,000,000 shares authorized for Series A; 550,000 shares authorized for Series B; none issued and outstanding as of December 31, 2015 and September 30, 2015	–	–
Common stock, $0.01 par value; authorized – 100,000,000 shares; 35,088,666 issued and outstanding as of December 31, 2015 and September 30, 2015	350,886	350,886
Additional paid-in capital	272,098,253	271,999,851
Accumulated deficit	(207,369,534)	(207,693,608)
Treasury stock – 85,454 shares at December 31, 2015 and 68,934 shares at September 30, 2015, at cost	(388,825)	(271,030)
Total stockholders' equity	**64,690,780**	**64,386,099**
Total liabilities and stockholders' equity	**$ 201,738,272**	**$ 202,901,968**

*Amounts derived from the audited financial statements for the year ended September 30, 2015.

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended December 31,	
	2015	2014
Net revenue	**$64,797,048**	**$49,864,621**
Costs and expenses:		
Cost of revenue	48,842,668	39,275,163
Depreciation and amortization expense – cost of revenue	920,200	-
Selling, general, and administrative expense	10,255,354	5,718,727
Depreciation and amortization expense – selling, general, and administrative	2,209,975	1,430,290
Total operating expenses	**62,228,197**	**46,424,180**
Operating income	**2,568,851**	**3,440,441**
Other income (expense):		
Interest expense	(2,181,581)	(231,918)
Dividend and interest income	118	2,795
Total other income (expense), net	**(2,181,463)**	**(229,123)**
Income before income taxes	**387,388**	**3,211,318**
Provision for income taxes	63,314	224,263
Net income	**324,074**	**2,987,055**
Net income attributable to non-controlling interest	-	(103,859)
Net income attributable to ALJ	**$ 324,074**	**$ 2,883,196**
Basic earnings per share of common stock	**$ 0.01**	**$ 0.09**
Diluted earnings per share of common stock	**$ 0.01**	**$ 0.08**
Weighted average shares of common stock outstanding:		
Basic	**35,003,212**	**31,278,660**
Diluted	**36,172,821**	**34,190,071**

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended December 31,	
	2015	2014
Operating activities		
Net income	**$ 324,074**	**$ 2,987,054**
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Depreciation and amortization	3,130,175	1,430,290
Stock-based compensation expense	98,402	36,300
Provision for bad debts	100,000	-
Deferred income taxes	(230,455)	-
Amortization of deferred loan costs	150,890	10,050
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,791,915)	(9,915,996)
Inventories, net	454,472	(1,357,713)
Collateral deposits	1,821,188	(123,812)
Prepaid expenses and other current assets	289,713	(1,112,536)
Other assets	(3,640)	21,661
Accounts payable	1,312	991,874
Accrued expenses	(1,375,848)	1,711,330
Income tax payable	202,550	15,115
Deferred revenue and customer deposits	(128,777)	(610,169)
Workers' compensation reserve	(58,000)	79,978
Other current liabilities	(82,497)	803,504
Other liabilities	108,738	(25,718)
Cash provided (used) by operating activities	**1,010,382**	**(5,058,788)**
Investing activities		
Capital expenditures	(580,972)	(3,054,422)
Cash used by investing activities	**(580,972)**	**(3,054,422)**
Financing activities		
Proceeds from line of credit	908,007	2,969,000
Payments on line of credit	(21,411)	-
Payments on term loan	(1,968,750)	-
Repurchase of common stock	(117,795)	-
Payments on financed insurance premiums	(274,382)	-
Payments on notes payable	-	(1,163,335)
Payments on capital leases	(243,355)	(33,932)
Cash (used) provided by financing activities	**(1,717,686)**	**1,771,733**
Change in cash and cash equivalents	**(1,288,276)**	**(6,341,477)**
Cash and cash equivalents at beginning of period	**5,103,462**	**10,078,301**
Cash and cash equivalents at end of period	**$ 3,815,186**	**$ 3,736,824**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Taxes	$91,221	$ 209,148
Interest	$ 2,043,129	$ 229,908
Non-cash investing and financing activities:		
Capital equipment purchases financed with capital leases	$ 563,236	$ 292,794
Financed insurance premiums	$ 1,131,255	$ -

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Organization and Basis of Presentation

Organization

ALJ Regional Holdings, Inc. (including subsidiaries, referred to collectively in this Report as "ALJ," and "Company") is a holding company. ALJ's primary assets as of December 31, 2015, were all of the outstanding capital stock of the following companies:

- Faneuil, Inc. (including its subsidiaries, "Faneuil"). Faneuil is a leading provider of call center services, back office operations, staffing services, and toll collection services to government and regulated commercial clients across the United States, focusing on the healthcare, utility, toll and transportation industries. Faneuil is headquartered in Hampton, Virginia. ALJ acquired Faneuil effective October 19, 2013.

- Floors-N-More, LLC, dba, Carpets N' More ("Carpets"). Carpets is one of the largest floor covering retailers in Las Vegas, Nevada, and a provider of multiple products for the commercial, retail and home builder markets including all types of flooring, countertops, cabinets, window coverings and garage/closet organizers, with five retail locations, as well as a stone and solid surface fabrication facility. ALJ acquired Carpets effective April 1, 2014.

- Phoenix Color Corp. (including its subsidiaries, "Phoenix"). Phoenix is a leading manufacturer of book components, educational materials, and related products producing value-added components, heavily illustrated books and specialty commercial products using a broad spectrum of materials and decorative technologies. Phoenix is headquartered in Hagerstown, Maryland. ALJ acquired Phoenix effective August 9, 2015.

ALJ has organized its business and corporate structure along the following business segments: Faneuil, Carpets, and Phoenix. ALJ is being reported as corporate overhead.

Basis of Presentation

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, for interim financial information and with the instructions to the Securities and Exchange Commissions, or SEC, Form 10-Q and article 10 of SEC Regulations S-X. They do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these financial statements should be read in conjunction with ALJ's audited consolidated financial statements and notes thereto for the year ended September 30, 2015, included in this report beginning on page F-20.

The Company has made estimates and judgments affecting the amounts reported in its condensed consolidated financial statements and the accompanying notes. Significant estimates and assumptions by management are used for, but are not limited to, determining the fair value of assets and liabilities, including intangible assets acquired and allocation of purchase price, useful lives, carrying values and recoverability of long-lived and intangible assets, the recoverability of goodwill, the realizability of deferred tax assets, stock-based compensation, the allowance for doubtful accounts and inventory reserves, and calculation of insurance reserves. Actual results may differ materially from estimates. The interim financial information is unaudited but reflects all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly ALJ's results of operations and financial position for the interim period. The results of operations for the three months ended December 31, 2015, are not necessarily indicative of the results expected for future quarters or the full year.

For a complete summary of ALJ's significant accounting policies, please refer to Note 2, "Nature of Operations and Summary of Significant Accounting Policies," included in this report beginning on Page F-22. There have been no material changes to significant accounting policies during the three months ended December 31, 2015.

2. Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 "*Revenue from Contracts with Customers*," ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in FASB Accounting Standards Codification ("ASC") topic "*Revenue Recognition (Topic 605)*" and creates a new ASC topic "*Revenue from Contracts with a Customer (Topic 606*). This guidance requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after December 15, 2016. Management is currently evaluating the effect that ASU 2014-09 will have on the Company's consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02 "*Consolidation (Topic 810): Amendments to the Consolidation Analysis*," ("ASU 2015-02"). ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. Management does not believe the adoption of ASU 2015-02 will have a material effect on the Company's consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03 "*Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*," ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For public business entities, the guidance is effective for annual and interim periods beginning after December 15, 2015. The Company is currently evaluating the impact of ASU 2015-03 and its impact on its consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, "*Business Combinations*," (ASU 2015-16"). ASU 2015-16 simplifies the accounting for measurement-period adjustments by eliminating the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires the cumulative impact of measurement period adjustments, including the impact on prior periods, to be recognized in the reporting period in which the adjustment is identified. ASU 2015-16 is effective for public companies for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. The Company is currently evaluating the impact of ASU 2015-03 and its impact on its consolidated financial statements and related disclosures.

3. Concentration Risks

Cash and Cash Equivalents

The Company maintains its cash balances in accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes there is little or no exposure to any significant credit risk.

Major Customers and Accounts Receivable

Each of ALJ's segments had customers that represent more than 10% of their respective revenues as described below.

Faneuil. The percentage of revenues derived from significant customers was as follows:

	Three Months Ended December 31,	
	2015	**2014**
Customer A	36.6%	31.6%
Customer B	15.7	**
Customer C	11.8	17.5

**Represents less than 10% of revenues.

Trade receivables from these customers totaled $14.5 million on December 31, 2015. As of December 31, 2015, all Faneuil's accounts receivable were unsecured. The risk with respect to accounts receivable is mitigated by credit evaluations performed on customers and the short duration of payment terms extended to customers.

Carpets. The percentage of revenues derived from significant customers was as follows:

	Three Months Ended December 31,	
	2015	2014
Customer A	33.4%	21.5%
Customer B	22.0	29.3

Trade receivables from these customers totaled $1.23 million on December 31, 2015. As of December 31, 2015, all Carpets' accounts receivable were unsecured. The risk with respect to accounts receivable is mitigated by credit evaluations performed on customers and the short duration of payment terms extended to customers.

Phoenix. During the three months ended December 31, 2015, Phoenix had two significant customers that accounted for 24.0% and 10.7% of Phoenix's net revenues. Trade receivable from these customers totaled $1.6 million on December 31, 2015.

Supplier Risk

ALJ did not have any suppliers that represented more than 10% of consolidated inventory purchases. However, two of ALJ's segments had suppliers that represented more than 10% of their respective inventory purchases as described below.

Carpets. The percentage of inventory purchases from significant suppliers was as follows:

	Three Months Ended December 31,	
	2015	2014
Supplier A	17.9%	22.5%
Supplier B	13.0	18.4
Supplier C	12.6	10.0
Supplier D	11.9	11.9

If these vendors became unable to provide materials promptly, Carpets would be required to find alternative vendors. Carpets' management estimates they could locate and qualify new vendors in approximately two weeks.

Phoenix. The percentage of inventory purchases from significant suppliers was as follows:

	Three Months Ended December 31, 2015
Supplier A	29.9%
Supplier B	15.8

If these vendors became unable to provide materials promptly, Phoenix would be required to find alternative vendors. Phoenix's management estimates they could locate and qualify new vendors in approximately four weeks.

4. Composition of Certain Financial Statement Captions

Accounts Receivable, Net

The following table summarizes accounts receivable at the end of each reporting period:

	December 31, 2015	September 30, 2015
Accounts receivable	$34,229,309	$34,812,842
Unbilled receivables	4,873,430	578,427
	39,102,739	35,391,269
Less: Allowance for doubtful accounts	(333,293)	(313,738)
	$38,769,446	**$35,077,531**

Inventories, Net

The following table summarizes inventories at the end of each reporting period:

	December 31, 2015	September 30, 2015
Raw materials and scrap	$2,461,961	$2,569,100
Semi-finished goods/Work in process	1,026,051	1,942,308
Finished goods	2,442,584	1,905,316
	5,930,596	6,416,724
Less: Allowance for obsolete inventory	(211,891)	(243,547)
	$5,718,705	**$6,173,177**

Property, Plant and Equipment

The following table summarizes property, plant and equipment at the end of each reporting period:

	December 31, 2015	September 30, 2015
Computer and office equipment	$ 7,160,752	$ 6,849,727
Software	5,912,009	5,595,439
Furniture and fixtures	2,867,105	2,547,694
Leasehold improvements	5,337,876	4,318,182
Construction in process	297,739	1,260,915
Vehicles	72,707	73,664
Land	9,166,575	9,166,575
Building and improvements	15,133,996	15,033,018
Machinery and equipment	13,201,706	13,161,043
	59,150,465	**58,006,257**
Less: Accumulated depreciation and amortization	(9,905,005)	(7,746,708)
	$49,245,460	**$50,259,549**

Depreciation and amortization expense was $2,158,297 and $973,289 for the three months ended December 31, 2015 and 2014, respectively.

Goodwill

The following table summarizes goodwill by reportable segment at the end of each reporting period:

	December 31, 2015	**September 30, 2015**
Faneuil	$19,728,840	$19,728,840
Carpets	2,554,835	2,554,835
Phoenix	30,239,000	30,239,000
	$52,522,675	**$52,522,675**

Intangible Assets

The following table summarizes identified intangible assets at the end of each reporting period:

	December 31, 2015			**September 30, 2015**		
	Gross	**Accumulated Amortization**	**Net**	**Gross**	**Accumulated Amortization**	**Net**
Customer relationships	$30,480,000	$(2,942,534)	$27,537,466	$30,480,000	$(2,320,241)	$28,159,759
Trade names	10,630,000	(387,435)	10,242,565	10,630,000	(289,016)	10,340,984
Internal software	580,014	(212,827)	367,187	580,014	(188,660)	391,354
Non-compete agreements	3,070,000	(844,859)	2,225,141	3,070,000	(617,860)	2,452,140
	$44,760,014	**$(4,387,655)**	**$40,372,359**	**$44,760,014**	**$(3,415,777)**	**$41,344,237**

Intangible asset amortization expense, included in selling, general, and administrative expense, totaled $971,878 and $457,001 for the three months ended December 31, 2015 and 2014, respectively.

The following table presents expected future amortization expense for the *remainder* of 2016 and yearly thereafter:

	Estimated Future Amortization
2016	$ 2,915,624
2017	3,846,677
2018	3,573,495
2019	3,193,178
2020	2,920,189
Thereafter	23,923,196
	$40,372,359

Accrued Liabilities

The following table summarizes accrued liabilities at the end of each reporting period:

	December 31, 2015	September 30, 2015
Accrued compensation and related taxes	$5,126,214	$6,713,245
Rebates payable	1,584,920	1,444,065
Medical and benefit related expense payables	724,836	769,903
Interest payable	659,496	655,840
Deferred rent	109,665	136,382
Other	872,770	734,314
	$9,077,901	**$10,453,749**

Workers' Compensation Reserve

Faneuil. Faneuil is self-insured for workers' compensation claims up to $250,000 per incident, and maintains insurance coverage for costs above the specified limit. Faneuil 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.

Phoenix. Before the acquisition of Phoenix by ALJ, Phoenix was self-insured for worker's compensation under their parent company for claims up to $500,000 per incident, and maintains coverage for costs above the specified limit. After the acquisition, the Phoenix changed to a fully insured plan.

5. Earnings Per Share

ALJ computed basic and diluted earnings per common share for each period as follows:

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014
Net income attributable to ALJ	$ 324,074	$ 2,883,196
Weighted average shares of common stock outstanding - basic	35,003,212	31,278,660
Dilutive effect of options to purchase common stock	1,169,609	2,911,411
Weighted average shares of common stock outstanding - diluted	36,172,821	34,190,071
Basic earnings per share of common stock	$ 0.01	$ 0.09
Diluted earnings per share of common stock	$ 0.01	$ 0.08

ALJ computed basic earnings per share of common stock using net income attributable to ALJ divided by the weighted average number of shares of common stock outstanding during the period. ALJ computed diluted earnings per share of common stock using net income attributable to ALJ divided by the weighted average number of shares of common stock outstanding plus potentially dilutive shares of common stock outstanding during the period. Potentially dilutive shares of options to purchase common stock were determined by applying the treasury stock method to the assumed exercise of outstanding stock options.

6. Debt

Term Loan and Line of Credit

Effective August 14, 2015, ALJ entered into a financing agreement (“Agreement”) with Cerberus Business Finance, LLC (“Cerberus”), to borrow $105 million in a term loan (“Cerberus Term Loan”) and have available up to $30 million in a revolver (“Cerberus/PNC Revolver”), collectively (“Cerberus Debt”). The proceeds were used to fund the acquisition of Phoenix, to refinance the outstanding debt of ALJ, Faneuil and Carpets, and to provide working capital facilities to all three of ALJ’s subsidiaries and ALJ.

During the three months ended December 31, 2015, the Cerberus Term Loan accrued interest at an annual interest rate of 7.5%. Interest payments are due in arrears on the first day of each month. Quarterly principal payments of approximately $2.0 million are due on the last day of each fiscal quarter beginning September 30, 2015. Annual principal payments equal to 75% of ALJ’s excess cash flow, as defined in the Agreement, are due beginning September 30, 2016. A final balloon payment is due at maturity, August 14, 2020. There is a prepayment penalty equal to 3%, 2% and 1% of any amounts prepaid within the first, second and third years of the loan, respectively. ALJ may make a one-time payment against the loan with no penalty up to $10 million.

During the three months ended December 31, 2015, the Cerberus/PNC Revolver accrued interest on the outstanding balance at an annual interest rate of 7.5%. Interest payments are due in arrears on the first day of each month. ALJ has the option to prepay (and re-borrow) the outstanding balance of the Cerberus/PNC Revolver, without penalty. Each subsidiary has the ability to borrow up to $30.0 million in the aggregate but limited to 85% of eligible receivables. The Cerberus/PNC Revolver carries an unused fee of 0.5%. Additionally, the Cerberus/PNC Revolver provides for a sublimit for letters of credit up to $15.0 million. Faneuil had a $2.2 million letter of credit under the agreement as of December 31, 2015. The Cerberus/PNC Revolver has a final maturity date of August 14, 2020.

The Cerberus Debt is secured by substantially all the Company’s assets. The Cerberus Debt includes certain limitations including the Company’s ability to incur debt, grant liens, initiate certain investments, declare dividends, and dispose of assets. The Cerberus Debt also requires ALJ to comply with debt covenants. As of December 31, 2015, ALJ was in compliance with all debt covenants and had unused borrowing capacity of $15.2 million.

Capital Lease Obligations

Faneuil leases equipment under non-cancelable capital leases. As of December 31, 2015, future minimum payments under non-cancelable capital leases with initial or remaining terms of one year or more are as follows:

Year Ending December 31,	Estimated Future Payments
2016	$ 1,078,980
2017	1,070,307
2018	200,283
Total minimum required payments	**2,349,570**
Less: current portion of capital lease obligations	(1,017,255)
Less: imputed interest	(91,706)
Capital lease obligations, less current portion	**$ 1,240,609**

7. Commitments and Contingencies

Operating Leases

The Company leases real estate, equipment, and vehicles under noncancellable operating leases. As of December 31, 2015, future minimum rental commitments under noncancellable leases were as follows:

Year Ending December 31,	Future Minimum Lease Payments
2016	$ 4,167,621
2017	3,728,325
2018	2,024,215
2019	1,314,681
2020	822,554
Thereafter	303,853
	$ 12,361,249

Employment Agreements

ALJ maintains employment agreements with certain key executive officers that provide for a base salary and annual bonus to be determined by the Board of Directors. The agreements also provide for termination payments, which includes base salary and performance bonus, stock options, non-competition provisions, and other terms and conditions of employment. As of December 31, 2015, termination payments related to base salary totals $1,380,000.

Surety Bonds

As part of Faneuil's normal course of operations, certain customers require surety bonds guaranteeing the performance of a contract. As of December 31, 2015, the face value of such surety bonds, which represents the maximum cash payments that Faneuil would have to make under certain circumstances of non-performance, was $20,669,790. To date, Faneuil has not made any non-performance payments.

Litigation, Claims, and Assessments

As of December 31, 2015, Faneuil is a defendant in actions for matters arising out of normal business operations. ALJ is also named as a defendant in a proposed class action filed in the United States District Court for the Eastern District of Virginia. The case, styled *Brown, et al., v. Transurban USA, Inc., et al.*, was filed on April 15, 2015. Faneuil's outside counsel estimated that the maximum exposure was $90,000. As such, Faneuil accrued $90,000 during the three months ended December 31, 2015.

From time to time, the Company and its subsidiaries are subject to various claims. In the opinion of management, any potential matters involve such amounts that unfavorable disposition would not have a material adverse effect on the financial position or results of operations of the Company.

Environmental Matters

The operations of Phoenix are subject to various laws and related regulations governing environmental matters. Under such laws, an owner or lessee of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in, or emanating from, such property, as well as investigation of property damage. Phoenix incurs ongoing expenses associated with the performance of appropriate monitoring and remediation at certain of its locations.

8. Equity

Common Stock

ALJ repurchased 16,520 shares of ALJ common stock at an average price of $3.90 per share during the three months ended December 31, 2015.

ALJ did not have any common stock activity during the three months ended December 31, 2014.

Equity Incentive Plans

ALJ's equity incentive plans are broad-based, long-term programs intended to attract and retain talented employees and align stockholder and employee interests.

Stock-Based Compensation. Included in the selling, general and administrative expenses for the three months ended December 31, 2015 and 2014, ALJ recognized stock-based compensation expense of $98,402 and $36,300, respectively. At December 31, 2015, ALJ had approximately $984,922 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately 2.60 years.

Stock Option Awards. ALJ had no stock option activity during the three months ended December 31, 2015.

The "intrinsic value" of options is the excess of the value of ALJ stock over the exercise price of such options. The total intrinsic value of options outstanding (of which all are expected to vest) was approximately $5,577,060 at December 31, 2015. The total intrinsic value of exercisable options was $5,371,616 at December 31, 2015.

9. Related-Party Transactions

Harland Clarke Holdings Corp. ("Harland Clarke"), a stockholder who owns ALJ shares in excess of five percent, has contracted with Faneuil to provide call center services to support Harland Clarke's banking-related products and managed print services. Faneuil recognized revenue from Harland Clarke totaling $437,259 and $792,946 for the three months ended December 31, 2015 and 2014, respectively. Total accounts receivable from Harland Clarke at December 31, 2015 was $389,385.

10. Reportable Segments and Geographic Information

Reportable Segments

As discussed in Note 1, ALJ has organized its business along three reportable segments (Faneuil, Carpets, and Phoenix) together with a corporate group for certain support services. ALJ's operations are aligned on the basis of products, services, and industry. The Chief Operating Decision Maker ("CODM") is ALJ's Chief Executive Officer. The CODM allocates resources to and assesses the performance of each operating segment using information about its net revenue and operating income. The CODM does not evaluate operating segments using discrete asset information. The accounting policies for segment reporting are the same as for ALJ as a whole.

Net revenue and operating income by reportable segment for each period were as follows:

	Three Months Ended December 31,	
	2015	**2014**
Net Revenue:		
Faneuil	$33,803,349	$40,738,375
Carpets	11,716,061	9,126,246
Phoenix	19,277,638	-
Consolidated net revenues	**$64,797,048**	**$49,864,621**
Operating Income (Loss):		
Faneuil	$1,304,481	4,114,404
Carpets	(237,255)	(312,764)
Phoenix	2,664,465	-
ALJ	(1,162,840)	(361,199)
Consolidated operating income	**$2,568,851**	**$3,440,441**

Geographic Information

Substantially all assets were located in the United States. Substantially all revenue was earned in the United States.

11. Subsequent Events

Management has evaluated subsequent events through March 25, 2016, which is the date the financial statements were issued.

On January 15, 2016, Phoenix sold one of its buildings for $975,000 cash paid at closing. Phoenix was not using the building at the time of the sale. As of December 31, 2015, and September 30, 2015, the building was presented as an asset held for sale on ALJ's balance sheets. Phoenix paid $58,115 of closing costs and realized a $228,779 gain on the sale of the building.