ALJ REGIONAL HOLDINGS, INC.

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Consolidated Financial Statements as of and for the Twelve Months Ended September 30, 2015 and 2014

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

ALJ Regional Holdings, Inc.

We have audited the accompanying consolidated balance sheets of **ALJ Regional Holdings, Inc. and Subsidiaries** (the "Company") as of September 30, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended September 30, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2015 and 2014, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

San Diego, California
December 31, 2015

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2015 AND 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,103,462	$ 10,078,301
Accounts receivable, less allowance for doubtful accounts of $313,738 and $805,803, respectively	35,077,531	25,278,375
Inventory, net	6,173,177	1,999,028
Current portion of collateral deposits	2,000,000	250,000
Prepaid expenses and other current assets	3,666,463	2,268,942
Assets held for sale	688,106	-
Total current assets	52,708,739	39,874,646
Property, plant and equipment, net	50,259,549	9,061,044
Other assets:		
Goodwill	52,522,675	22,283,308
Intangible assets, net	41,344,237	16,779,458
Deferred loan costs, net	3,674,816	215,072
Collateral deposits, less current portion	2,000,000	3,325,000
Other assets	289,875	183,513
Investment in Bellator	102,077	102,077
Total other assets	99,933,680	42,888,428
Total assets	$ 202,901,968	$ 91,824,118

(continued)

	2015	2014
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,345,990	$ 5,852,612
Accrued expenses	10,453,749	8,480,239
Income taxes payable	800,135	251,206
Current portion of deferred revenue	469,537	2,294,667
Current portion of term loans	7,875,000	4,656,789
Current portion of capital lease obligation	830,368	43,388
Current portion of workman's compensation reserve	1,026,868	709,234
Customer deposits	983,979	437,921
Other liabilities	172,468	427,175
Liabilities related to discontinued operations	298,466	298,466
Total current liabilities	30,256,560	23,451,697
Non-current liabilities:		
Line of credit	21,411	
Term loan payable, less current portion	95,156,250	16,400,000
Deferred revenue, less current portion	148,430	596,395
Workman's comp reserve, less current portion	1,984,866	1,240,600
Capital lease obligations, less current portion	1,107,615	-
Other liabilities	1,598,148	813,413
Unearned revenue	62,688	112,607
Deferred tax liability	8,179,901	-
Total liabilities	138,515,869	42,614,712
Redeemable stock in subsidiaries – Noncontrolling interest	-	1,381,959
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $0.01 par value; authorized – 100,000,000 shares; 35,088,666 and 31,278,660, issued and outstanding as of September 30, 2015 and 2014	350,886	312,786
Additional paid in capital	271,999,851	267,917,729
Accumulated deficit	(207,693,608)	(219,586,160)
Treasury stock – 68,934 shares at September 30, 2015, and 245,627 shares at September 30, 2014, at cost	(271,030)	(816,908)
Total stockholders' equity	64,386,099	47,827,447
Total liabilities and stockholders' equity	$ 202,901,968	$ 91,824,118

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
TWELVE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Net Revenue	$ 209,946,579	$ 149,604,762
Costs and expenses:		
Cost of revenue	164,756,545	115,919,903
Depreciation and amortization – cost of revenue	518,241	-
Selling, general, and administrative	28,557,455	16,559,476
Depreciation and amortization – general and admin	6,651,586	4,499,805
Loss on sale of assets	448,258	-
Total costs and expenses	200,932,085	136,979,184
Income from operations	9,014,494	12,625,578
Interest expense	(2,187,861)	(1,269,806)
Dividend and interest income	9,959	32,688
Income before taxes	6,836,592	11,388,460
Income taxes		
Income taxes – current (expense)	(800,135)	(677,131)
Income taxes – deferred benefit	6,256,670	5,220,423
Income tax benefit – total	5,456,535	4,543,292
Net income	12,293,127	15,931,752
Net income attributable to noncontrolling interest	(400,575)	(281,966)
Net income attributable to ALJ	$ 11,892,552	$ 15,649,786
Net income per common share		
Basic	$ 0.36	$ 0.52
Diluted	$ 0.35	$ 0.47
Shares used in per share calculation		
Basic	33,101,793	30,302,436
Diluted	34,153,536	33,093,008

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
TWELVE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

	Common Stock					
	Shares	**Amount**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Treasury Stock**	**Total**
Balances at September 30, 2013	26,744,913	$ 267,449	$ 262,755,790	$ (235,235,946)	$ (29,027)	$ 27,758,266
Issuance of stock in ALJ for the purchase of Faneuil	3,000,000	30,000	2,460,000	-	-	2,490,000
Issuance of common stock	1,400,000	14,000	2,226,000	-	-	2,240,000
Share based compensation	133,747	1,337	475,939	-	-	477,276
Treasury stock repurchase	-	-	-	-	(787,881)	(787,881)
Net income attributable to ALJ	-	-	-	15,649,786	-	15,649,786
Balances at September 30, 2014	31,278,660	312,786	267,917,729	(219,586,160)	(816,908)	47,827,447
Exercise of stock options	2,041,000	20,410	821,911	-	-	842,321
Issuance of common stock	450,000	4,500	1,705,500	-	-	1,710,000
Issuance of stock for the exchange of noncontrolling interest	1,800,000	18,000	1,764,534	-	-	1,782,534
Share based compensation	-	-	1,508,672	-	-	1,508,672
Treasury stock repurchase	-	-	-	-	(1,177,427)	(1,177,427)
Treasury stock retirement	(480,994)	(4,810)	(1,718,495)	-	1,723,305	-
Net income attributable to ALJ				11,892,552		11,892,552
Balances at September 30, 2015	35,088,666	$ 350,886	$ 271,999,851	$ (207,693,608)	$ (271,030)	$ 64,386,099

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
TWELVE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Operating Activities		
Net income	$ 12,293,127	$ 15,931,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Share based compensation	1,508,672	475,940
Depreciation and amortization	7,169,827	4,499,805
Provision for bad debts	203,525	615,964
Provision for obsolete inventory	243,547	-
Loss on sale of intangible assets	80,000	-
Provision for deferred taxes	(7,276,099)	(4,092,680)
Amortization of loan costs	297,809	-
Loss on sale of assets	448,258	-
Changes in operating assets and liabilities:		
(Increase) decrease in -		
Accounts receivable, net	(1,832,130)	(5,865,179)
Inventories	73,865	(599,687)
Other assets	2,141,191	(111,354)
Prepaid expenses	(1,855,635)	256,303
Increase (decrease) in -		
Accounts payable	(879,549)	1,945,423
Workman's compensation reserve	110,075	251,206
Income taxes payable	562,786	(126,169)
Accrued expenses	(196,552)	2,529,170
Deferred revenue	(2,323,014)	(2,098,396)
Other liabilities	124,161	857,848
Customer deposits	508,511	(191,858)
Net cash provided by operating activities	$ 11,402,375	$ 14,278,088
Investing activities		
Acquisition of Phoenix, net of cash acquired	$ (88,284,548)	$ -
Acquisition of Faneuil, net of cash acquired	-	(19,091,201)
Acquisition of Carpets, net of cash acquired	-	(5,254,105)
Proceeds received from sale of intangible assets	60,000	-
Investment in Equipment	(7,083,649)	(4,263,169)
Net cash used in investing activities	$ (95,308,197)	$ (28,608,475)
Financing activities		
Proceeds from Cerberus Term Note	$ 105,000,000	$ -
Payments on capital lease obligations	(682,230)	(359,564)
Repayment on Cerberus Term Note	(1,968,750)	-
Net proceeds from exercise of stock options	820,000	-
Proceeds from the sale of non-controlling interest in Faneuil	-	99,993
Debt issuance costs	(3,757,553)	(215,072)
Payments against Harland Clarke Note Payable	-	(25,000,000)
Repayment on M&T Term Loan	(21,000,000)	-
Proceeds from the sale of ALJ Stock	1,710,000	2,240,000
Proceeds from M&T Term Loans	-	21,000,000
Proceeds from line of credit, net	21,411	-
Payments against various notes and agreements - Carpets	(56,789)	(395,288)

Repurchase of ALJ Treasury Stock	(1,155,106)	(786,707)
Net cash provided by (used in) financing activities	78,930,983	(3,416,638)
Net decrease in cash and cash equivalents	(4,974,839)	(17,747,025)
Cash and cash equivalents at beginning of period	10,078,301	27,825,326
Cash and cash equivalents at end of period	$ 5,103,462	$ 10,078,301
Supplemental disclosures of cash flow information:		
Interest paid	$ 1,224,252	$ 1,243,127
Income taxes paid	$ 1,294,224	$ 475,000

Noncash investing and financing transactions:

The Company retired 480,994 shares of Treasury Stock recorded at $1.7 million during the year ended September 30, 2015.

The Company leased $2.5 million of various equipment through capital leases during the year ended September 30, 2015.

On July 10, 2015, ALJ exchanged 1,800,000 shares of stock in ALJ for the entire outstanding noncontrolling interest in Faneuil and Carpets. The total amount of noncontrolling interest purchased by the Company was $1,782,534.

In May 2015, Hal Byer, a Director, executed cashless stock option exercises for 30,000 shares of common stock and 11,000 shares of common stock at $4.05 per share and $4.15 per share, respectively.

On September 30, 2014, ALJ refinanced its $2.0 million term loan with Libra Securities with a $2.0 million term loan with M&T Bank. At closing, M&T Bank refinanced the loan directly with Libra Securities.

On September 30, 2014, Faneuil refinanced its remaining $21.6 million Harland Clarke Note with the Term Loan with M&T Bank. At Closing, Faneuil owed $21.6 million inclusive of accrued interest remaining on the Harland Clarke Note, and at closing paid down $2.6 million from cash on hand, leaving $19.0 million, which was refinanced under the Term Loan with M&T Bank.

On October 19, 2013, Anna Van Buren purchased $1.0 million of noncontrolling interest in Faneuil by directly paying the seller at the time of acquisition.

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

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.

As further described in Note 3, ALJ owns all of the capital stock of Faneuil, Inc. (including its subsidiaries, "Faneuil"). As further described in Note 4, ALJ owns all of the equity interests of Floors-N-More, LLC, dba, Carpets N' More ("Carpets"). As further described in Note 5, ALJ owns all of the capital stock of Phoenix Color Corp. (including its subsidiaries, "Phoenix"). ALJ included the results of operations in its consolidated financial statements for Faneuil for the period from October 19, 2013 through September 30, 2015, Carpets for the period April 1, 2014 through September 30, 2015 and Phoenix for the period August 9, 2015 through September 30, 2015.

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

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding company, whose primary assets as of September 30, 2015 were all of the outstanding capital stock of Faneuil, Carpets and Phoenix. ALJ acquired Faneuil effective October 19, 2013, Carpets effective April 1, 2014 and Phoenix effective August 9, 2015. As a result, the Company has now organized its business and corporate structure along the following three business segments: Faneuil, Carpets and Phoenix.

Faneuil is a leading provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries. Faneuil 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. The Company is headquartered in Hampton, Virginia.

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.

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. The Company is headquartered in Hagerstown, Maryland.

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

Accounts receivable are recorded at the invoiced amount and have been reduced by an allowance for doubtful accounts, which is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on customer specific experience and the aging of such receivables, among other factors.

Inventory

Carpets. Inventory, which consists of carpet, wood, vinyl, granite and other related hard surfaces, cabinets and window treatments, is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method, and market represents the lower of cost or estimate. The estimate is used in cases where a portion of the inventory is remaining and an estimated value is assigned to the remaining portion of that inventory. The Company reserves for slow-moving and obsolete inventory when management determines an item should be reserved based on historical and/or projected usage of the product. Obsolete or unsalable inventories are reflected at their estimated realizable values.

Phoenix. Inventory, which consists primarily of paper, laminating film and inks, is stated at lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method and includes direct materials, direct labor, and applicable overhead. The Company reserves for slow-moving and obsolete inventory when management determines an item should be reserved based on historical and/or projected usage of the product. Obsolete or unsalable inventories are reflected at their estimated realizable values.

Property, Plant and Equipment

Property, plant and equipment acquired in a business acquisition are stated at fair value on the date of acquisition. Subsequent purchases are carried at cost. 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. The useful lives differ by entity. Below is a summary of the useful lives:

Computer and office equipment	3–7 years
Computer software	3–6 years
Furniture and fixtures	7–10 years
Leasehold improvements	Shorter of useful life or lease term
Equipment under capital leases	Shorter of useful life or lease term
Equipment	5 years
Vehicles and commercial trucks	5 years
Buildings	7–40 years
Land	indefinite

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

Customer Deposits

Carpets. In conjunction with certain of the Company's residential sales contracts, some customers are required to remit 50% of the contract sales price as a deposit when a sales order is initiated. At any given time, the customer deposits account represents sales orders which span over several months. Upon completion of installation on any job, the Company invoices the remaining amount minus the related deposit.

Phoenix. In conjunction with certain of the Company's sales orders, some customers are required to prepay a portion of the estimated sales price as a deposit when the sales order is initiated and/or prior to shipment of the sales order. The customer deposits account represents prepayments toward sales orders that are typically completed within a one or two month period. Upon completion of the job, the job is billed and the customer deposit is applied towards the invoice.

Revenue Recognition

The Company recognizes revenue when the earnings process is complete, evidenced by an agreement with the respective customer, delivery and acceptance has occurred, or services have been provided, collectability is probable and pricing is fixed or determinable.

Faneuil. 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.

Carpets. The Company recognizes revenue and invoices customers upon completion of installation of product. The Company is not obligated to perform significant activities after installation is complete. Payments received by customers prior to installation are recorded as customer deposits. Sales taxes collected and remitted are recorded on a net basis.

For commercial projects, the Company recognizes revenue based on the cost to cost method under the percentage of completion method for revenue recognition. Under the cost to cost method, the Company analyzes the contract cost incurred to date to the total expected contract cost. If a loss is projected at any time during the project the company recognizes the full loss immediately in the period in which the loss is projected.

Phoenix. Revenue is recognized (1) when products are shipped (if shipped "FOB" shipping point) (2) when products are delivered (if shipped "FOB" destination) and (3) as services are performed as determined by contractual arrangement, but in all cases only when risk of loss has transferred to the customer and the Company has no further performance obligations.

Insurance Reserves

Faneuil. 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. Faneuil reserved $2.0 million and $2.0 million, net of premium offsets for workman's compensation claims as of September 30, 2015 and 2014, respectively.

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. The Company

has reserved $1.0 million for workman's compensation claims as of September 30, 2015. After the acquisition, the Phoenix changed to a fully insured plan.

The Company has reserved a total of $3.0 million and $2.0 million, net of premium offsets for workman's compensation claims as of September 30, 2015 and 2014, respectively.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. Intangible assets are recorded at fair value as of the date acquired. Goodwill and other intangibles determined to have an indefinite life are not amortized, but are tested for impairment annually or when events or changes in circumstances indicate that the assets might be impaired, such as a significant adverse change in the business climate. If impaired, the asset's carrying value is reduced to fair value. Goodwill at September 30, 2015 and 2014 was $52.5 million and $22.3 million, respectively.

Impairment of Goodwill, Other Indefinite-Lived Assets and Long-Lived Assets

Goodwill and other indefinite-lived intangible assets are tested annually for impairment and in interim periods if certain events occur indicating that the carrying amounts may be impaired. If a qualitative assessment is used and the Company determines that the fair value of a reporting unit or indefinite-lived intangible asset is more likely than not (i.e., a likelihood of more than 50%) less than its carrying amount, a quantitative impairment test will be performed. If goodwill is quantitatively assessed for impairment, a two-step approach is applied. First, the Company compares the estimated fair value of the reporting unit in which the goodwill resides to its carrying value. The second step, if necessary, measures the amount of impairment, if any, by comparing the implied fair value of goodwill to its carrying value. Other indefinite-lived intangible assets are quantitatively assessed for impairment, if necessary, by comparing their estimated fair values to their carrying values. If the carrying value exceeds the fair value, the difference is recorded as an impairment.

Long-lived assets, such as property, plant and equipment and intangible assets subject to amortization, are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Long-lived assets to be disposed of by sale are reported at the lower of their carrying amounts or their estimated fair values less costs to sell and are not depreciated.

Intangible assets that are deemed to have a finite life are amortized over their estimated useful life generally using straight-line.

Faneuil. Amortization is provided principally over the following useful lives:

Customer relationships	12.5 years
Internal software	6 years
Trade name	15 years

Carpets. Amortization is provided principally over the following useful lives:

Customer relationships	15 years
Non-Compete agreements	3 to 5 years
Contract backlog	1 year
Trade name	15 years

Phoenix. Amortization is provided principally over the following useful lives:

Customer relationships	12 years
Non-Compete agreements	2 to 3 years
Trade name	30 years

Loan Costs

Financing costs are deferred and amortized using the effective interest method over the term of the related loan agreement. During the year ended September 30, 2014, ALJ, Faneuil and Carpets each entered into a financing arrangement with M&T Bank and originally capitalized $0.2 million of costs in total to be amortized over the life of each arrangement. Each of the ALJ, Faneuil and Carpets refinanced their arrangements with Cerberus and wrote off the remaining portion. Related amortization expense was $0.3 million and $0, for the twelve months ended September 30, 2015 and 2014, respectively, and is included in interest expense.

During the year ended September 30, 2015, ALJ, Faneuil, Carpets and Phoenix entered into a financing arrangement with Cerberus and capitalized $3.7 million of costs in total to be amortized over the life of the agreement. The related amortization expense was $0.1 for the year ended September 30, 2015.

Income Taxes

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

The Company's judgments relative to the current provision for income taxes take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years post June 2011 and certain other years. See Note 16. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause actual income tax obligations to differ from our estimates, thus materially impacting the Company's financial position and results of operations.

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

Shipping and Handling Fees and Costs

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

Operating Leases

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

Stock-Based Compensation

The Company recognizes compensation expense for its equity awards on a straight-line basis over the requisite service period of the award based on the estimated portion of the award that is expected to vest and applies estimated forfeiture rates based

on analyses of historical data, including termination patterns and other factors. 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. Where volatility was not available, the Company uses comparable companies with the estimated expected term. The expected term of an award is equal to the midpoint between the vesting date and the end of the contractual term of the award. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. The Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, uses an expected dividend yield of zero. Stock-based compensation cost for restricted stock awards and restricted stock units are measured based on the fair market value of the Company's common stock at the date of grant.

Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash equivalents, accounts receivable, accounts payable and accrued expenses approximate the related fair values due to the short-term maturities of these instruments.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Includes other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs that are supported by little or no market activities, therefore requiring an entity to develop its own assumptions.

Concentrations

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.

Faneuil

For the twelve months ended September 30, 2015, the Company had three customers associated with five contracts that accounted for approximately 34.2%, 12.6%, and 11.4% of net revenue, of which approximately $5.8 million, $1.9 million, and $0, respectively were included in accounts receivable at September 30, 2015. For the twelve months ended September 30, 2014, the Company had one customer that accounted for approximately 37.4% of net sales, of which approximately $6.7 million was included in accounts receivable at September 30, 2014.

For the twelve months ended September 30, 2015, the Company had eight contracts in which each contract independently contributed to more than 5% of total revenue. In the aggregate these contracts accounted for $119.9 million, or 80.1% of total revenue. Three of these contracts independently contributed to more than 10% of revenue, at 19.7%, 12.6%, and 11.4% for each contract.

For the twelve months ended September 30, 2014, the Company had seven contracts in which each contract independently contributed to more than 5% of total revenue. In the aggregate these contracts accounted for $110.7 million, or 79.9% of total revenue. Two of these contracts independently contributed to more than 10% of revenue, at 23.0% and 16.6% for each contract.

Carpets

For the twelve months ended September 30, 2015, Carpets received 58.4% of its revenue from 3 customers which accounted for 27.3%, 25.6%, and 5.5% of Carpets revenues, respectively, of which $0.5 million, $1.2 million, and $0.5 million, respectively, were included in accounts receivable as of September 30, 2015.

For the period ended September 30, 2014, Carpets received 72.6% of its revenue from 4 customers which accounted for 27.9%, 18.9%, 15.1% and 10.7% of Carpets revenues, respectively, of which $1.2 million, $0.7 million, $0.5 million and $0.5 million, respectively, were included in accounts receivable as of September 30, 2014.

For the twelve months ended September 30, 2015, Carpets had 4 suppliers that accounted for approximately 19.3%, 18.7%, 14.9% and 10.4% of its inventory purchases, of which approximately $0.5 million, $1.1 million, $0.2 million and $0.1 million, respectively, were included in accounts payable at September 30, 2015.

For the period ended September 30, 2014, Carpets had 3 suppliers that accounted for approximately 26.0%, 16.6% and 13.2% of its inventory purchases, of which approximately $0.6 million, $0.4 million and $0.4 million, respectively, were included in accounts payable at September 30, 2014.

Phoenix
For the period ended September 30, 2015, Phoenix had 3 customers that accounted for approximately 27.0%, 15.6%, and 13.2%, of its revenues, respectively, of which $2.6 million, $1.2 million, and $1.0 million, respectively, were included in Accounts Receivable as of September 30, 2015.

For the period ended September 30, 2015, Phoenix had 2 suppliers that accounted for approximately 26.3% and 16.5% of its inventory purchases, of which approximately $0.3 million and $0.4 million, respectively, were included in accounts payable at September 30, 2015.

Earnings Per Share

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

The following table summarizes the basic and dilutive weighted average shares at September 30, 2015 and 2014:

	2015	2014
Weighted average shares outstanding, basic	33,101,793	30,302,436
Dilutive effect of:		
Options to purchase common stock	1,051,743	2,790,572
Weighted average shares outstanding, diluted	34,153,536	33,093,008

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation and unrealized gains or losses on marketable securities. The Company did not have any items of comprehensive income (loss) for the twelve months ended September 30, 2015 and 2014.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Although actual results could differ from those estimates, such estimates are developed based on the best information available to management and management's best judgments at the time. 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.

Reclassifications

Certain amounts for 2014 have been reclassified to conform to the 2015 presentation. These reclassifications had no effect on the previously reported net income.

Recent Accounting Pronouncements

In April 2014, the FASB issued Accounting Standards Update No. 2014-08 (ASU 2014-08) "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. We do not expect the impact of the adoption of ASU 2014-08 to be material to our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)", and 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. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02 "Consolidation (Topic 810): Amendments to the Consolidation Analysis." 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. We are currently in the process of evaluating the impact of the adoption of ASU 2015-02 on our consolidated financial statements.

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 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. We are currently evaluating the impact of ASU 2015-03 and its impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations," which 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. The ASU 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. We are currently evaluating the impact of ASU 2015-03 and its impact on our consolidated financial statements.

3. Acquisition of Faneuil

On October 18, 2013, Faneuil was acquired by ALJ and certain individual buyers from Harland Clarke for approximately $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 the Harland Clarke Note for $25.0 million. ALJ acquired Faneuil to establish an industry leading call center and manual toll operation business. ALJ acquired 96.43% of Faneuil's outstanding capital stock and the remaining 3.57% was acquired by Ms. Van Buren, Faneuil's CEO. 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 held substantially all of the capital stock of Faneuil, and Ms. Van Buren and Ms. Leherr held a noncontrolling interest in Faneuil. On July 10, 2015, Ms. Van Buren and Ms. Leherr exchanged 32,857 and 3,286 shares of Faneuil's common stock, respectively, for 1,500,000 shares and 150,000 shares of common stock of ALJ, respectively.

Additionally, Ms. Van Buren forfeited her rights to 60,000 stock options in Faneuil. As a result, as of July 10, 2015, ALJ owned 100% of the outstanding stock in Faneuil.

In accordance with FASB ASC 805, Business Combinations, Faneuil accounted for the acquisition under the push-down method of accounting, which requires that the financial statements of a subsidiary reflect the costs incurred by the parent company in buying the subsidiaries instead of the subsidiaries' historical costs. ALJ allocated the total purchase price based on management's estimated fair value of the assets received and liabilities assumed at the date of acquisition. The allocation process included analysis based on income and cost approaches and was performed by an outside appraisal firm. The following schedule reflects the estimated fair value of assets acquired and liabilities assumed at the date of acquisition (October 18, 2013):

Total current assets	$ 28,854,131
Leasehold improvement and equipment	7,568,074
Other assets	79,295
Identified intangible assets	
Customer relationships	13,500,000
Trade names	1,500,000
Non-compete agreements	580,014
Goodwill	19,728,473
	71,809,987
Total current liabilities	(9,514,565)
Total long term liabilities	(9,630,422)
	$ 52,665,000

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. Acquisition of Carpets

On April 1, 2014, ALJ acquired 100 percent of the membership interest of the Company under a purchase and sales agreement. The aggregate purchase price was approximately $5,250,000. ALJ acquired Carpets since it was in a growth sector at the time. Concurrent with the closing, ALJ invested $240,000 in Carpets. Mr. Chesin, the Chief Executive Officer of Carpets, was issued 40,000 Equity Award Units, 10,000 which vested on each of June 30, 2015, 2016 and 2017. On July 1, 2014, each of the Limited Liability Company Operating Agreement and the Members' Agreement of Carpets were amended and restated to provide Mr. Chesin with an allocation of 750,000 Class B Preferred Units and 75,000 Common Units. On July 10, 2015, Mr. Chesin exchanged his 750,000 Class B Preferred Units with a preference amount equal to $750,000, 75,000 Common Units and 40,000 Equity Award Units of Carpets for 150,000 shares of common stock of ALJ.

ALJ funded the Carpets acquisition through existing cash, the sale of 1.4 million shares of its common stock in two separate private placements at a price of $1.60 per share, totaling $2.2 million, and the incurrence of $2.0 million in debt from Libra Securities Holdings, LLC, a related party, by issuance of a promissory note.

In accordance with FASB ASC 805, Business combinations, Carpets accounted for the acquisition under the push-down method of accounting, which requires that the financial statements of a subsidiary reflect the costs incurred by the parent company in buying the subsidiaries instead of the subsidiaries' historical costs. ALJ allocated the total purchase price based on management's estimated fair value of the assets received and liabilities assumed at the date of acquisition. The allocation

process included analysis based on income and cost approaches and was performed by an outside appraisal firm. The following schedule reflects the estimated fair value of assets acquired and liabilities assumed at the date of acquisition (April 1, 2014):

Total current assets	$ 5,545,723
Leasehold improvement and equipment	239,050
Other assets	32,579
Identified intangible assets	
Customer relationships	70,000
Trade names	520,000
Non-compete agreements	2,020,000
Contract backlog	80,000
Goodwill	2,554,835
	11,062,187
Total current liabilities	(5,577,904)
Other liabilities	(234,283)
	$ 5,250,000

5. Acquisition of Phoenix

Effective August 9, 2015, ALJ acquired all of the capital stock of Phoenix Color Corp. ("Phoenix") pursuant to a stock purchase agreement, dated July 11, 2015, from Visant Corporation ("Visant"). ALJ acquired Phoenix to establish a presence in the printing industry. ALJ paid $88.3 million in cash to Visant for all of the capital stock in Phoenix.

In accordance with FASB ASC 805, Business Combinations, Phoenix accounted for the acquisition under the push-down method of accounting, which requires that the financial statements of a subsidiary reflect the costs incurred by the parent company in buying the subsidiaries instead of the subsidiaries' historical costs. ALJ allocated the total purchase price based on management's estimated fair value of the assets received and liabilities assumed at the date of acquisition. The allocation process included analysis based on income and cost approaches and was performed by an outside appraisal firm. The following schedule reflects the estimated fair value of assets acquired and liabilities assumed at the date of acquisition (August 9, 2015):

Total current assets	$ 13,879,000
Leasehold improvement and equipment	37,769,000
Other assets	997,000
Identified intangible assets	
Customer relationships	16,910,000
Trade names	8,610,000
Non-compete agreements	1,260,000
Goodwill	30,239,000
	109,664,000
Total current liabilities	(4,791,000)
Total long term liabilities	(16,589,000)
	$ 88,284,000

Pro Forma Impact of Business Combinations

The following table presents unaudited pro forma consolidated results of operations for the twelve months ended September 30, 2015, as if the acquisitions of Phoenix and Carpets had occurred as of October 1, 2013

	Unaudited For The Twelve Months Ended September 30,	
	2015	**2014**
Revenue	$ 280,400,000	$ 256,722,000

Net income attributable to ALJ	$	20,652,000	$	22,298,000

The unaudited pro forma consolidated results of operations were prepared using the acquisition method of accounting and are based on the historical financial information of the Company and the acquired businesses described above.

The unaudited pro forma information does not reflect any cost savings, operating synergies and other benefits that the Company may achieve as a result of these acquisitions, or the costs necessary to achieve these cost savings, operating synergies and other benefits. In addition, except to the extent recognized in the year ended September 30, 2015, the unaudited pro forma information does not reflect the costs to integrate the operations of the Company with those of the acquired businesses.

The unaudited pro forma information is not necessarily indicative of what the Company's consolidated results of operations actually would have been had the August 9, 2015 acquisitions been completed on October 1, 2013. In addition, the unaudited pro forma information does not purport to project the future results of operations of the Company. The unaudited pro forma information reflects primarily the following adjustments:

- elimination of historical intangible asset write down and amortization expense of these acquisitions;
- elimination of historical depreciation expense related to property, plant and equipment acquired;
- elimination of historical interest expense charged by parent company
- elimination of historical health insurance expenses charged by parent company
- additional amortization expense related to the fair value of identifiable intangible assets acquired;
- additional depreciation expense related to fair value adjustment to property, plant and equipment acquired
- additional interest expense association with acquisition financing
- additional health insurance expenses expected to be incurred

In addition, all of the above adjustments were adjusted for the applicable tax impact.

6. Discontinued Operations

As of September 30, 2015 and 2014, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of $298,466 and $298,466, respectively, remaining from its discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the discontinued businesses.

7. Business Segment Information

The Company has organized its business along three reportable segments together with a corporate group for certain support services. The Company's operations are aligned on the basis of products, services and industry and the Chief Operating Decision Maker (CODM) and management reviews for the purpose of allocating resources and assessing performance. The current segments and their principal activities consist of the following:

- 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. The Company is headquartered in Hampton, Virginia.

- 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.

- 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. The Company is headquartered in Hagerstown, Maryland.

	For the year Ended September 30, 2015	For the year Ended September 30, 2014
Net Revenue		
Faneuil	$ 149,624,810	$ 132,851,782
Carpets	44,571,476	16,752,980
Phoenix	15,750,293	-
Consolidated	209,946,579	149,604,762
Cost of revenue		
Faneuil	118,116,393	102,095,387
Carpets	37,032,419	13,824,516
Phoenix (includes $518,241 of depreciation)	10,125,974	-
Consolidated	165,274,786	115,919,903
Selling, general and administrative		
Faneuil (includes $448,258 for loss on sale of assets)	17,056,704	12,245,765
Carpets	7,239,645	3,295,255
Phoenix	1,489,190	-
Consolidated	25,785,539	15,541,020
Depreciation and amortization		
Faneuil	5,591,265	4,150,342
Carpets	705,270	349,463
Phoenix	355,051	-
Consolidated	6,651,586	4,499,805
Segment operating profit		
Faneuil	8,860,448	14,360,288
Carpets	(405,858)	(716,254)
Phoenix	3,780,078	-
Consolidated	12,234,668	13,644,034
Parent company expenses	3,220,174	1,018,456
Operating income	9,014,494	12,625,578
Total assets		
Faneuil	63,712,117	79,450,207
Carpets	11,001,275	11,047,043
Phoenix	112,456,108	-
ALJ	15,732,468	1,326,868
Consolidated	202,901,968	91,824,118
Total liabilities		
Faneuil	18,494,731	35,101,472
Carpets	5,159,894	4,969,014
Phoenix	22,614,130	-
ALJ	92,247,114	2,544,226
Consolidated	$ 138,515,869	$ 42,614,712

8. Accounts Receivable

The Company's accounts receivable are summarized as follows at September 30, 2015 and 2014:

	2015	2014
Accounts receivables	$ 34,812,842	$ 23,544,953
Unbilled receivables	578,427	2,539,225
Less: Allowance for doubtful accounts	(313,738)	(805,803)
Accounts receivable, net	$ 35,077,531	$ 25,278,375

9. Inventories

Inventories are comprised of the following at September 30, 2015 and 2014:

	2015	2014
Raw materials and scrap	$ 2,569,100	$ -
Semi-finished goods/Work in process	1,942,308	113,729
Finished goods	1,905,316	1,885,299
Less: Allowance for obsolete inventory	(243,547)	-
Total	$ 6,173,177	$ 1,999,028

10. Property, Plant and Equipment

Property, plant and equipment at September 30, 2015 and 2014 consisted of the following:

	September 30, 2015	September 30, 2014
Computer and office equipment	$ 6,849,727	$ 3,997,584
Computer software	5,595,439	3,767,926
Furniture and fixtures	2,547,694	1,602,606
Leasehold improvements	4,318,182	2,174,424
Construction in progress	1,260,915	380,077
Vehicles	73,664	8,598
Land	9,166,575	-
Buildings and improvements	15,033,018	-
Machinery and equipment	13,161,043	139,078
Total	58,006,527	12,070,293
Less: Accumulated depreciation and amortization	(7,746,708)	(3,009,249)
	$ 50,259,549	$ 9,061,044

Depreciation and amortization expense for the twelve months ended September 30, 2015 and 2014 was $5.1 million, and $3.0 million, respectively. At September 30, 2015 and 2014, property and equipment held under capital leases amounted to approximately $4.0 million and $1.5 million, respectively, with accumulated depreciation of approximately $2.0 million and $1.3 million, respectively. Depreciation expense related to capital leases for the twelve months ending September 30, 2015 and 2014 was approximately $0.7 million and $40,771, respectively.

11. Intangible Assets

Intangible assets at September 30, 2015 and 2014 consisted of the following:

	September 30, 2015			September 30, 2014		
Intangible Assets	Gross Carrying Amount	Accum Amort	Weighted-Ave Amort period (yrs)	Gross Carrying Amount	Accum Amort	Weighted-Ave Amort Period (yrs)
Customer Relationships	$30,480,000	$2,320,241	12.2	$13,570,000	$1,030,070	12.5
Trade Names	10,630,000	289,016	27.2	2,020,000	112,495	15.0
Internal Software	580,000	188,660	6.0	580,000	91,991	6.0
Non-Compete Agreements	3,070,000	617,860	5.0	2,020,000	216,000	4.8
Contract Backlog	80,000	80,000	1.0	80,000	40,000	1.0
Total	$44,840,000	$3,495,777		$18,270,000	$1,490,556	

Amortization expense for the twelve months ended September 30, 2015 and 2014 was $2.1 million, and $1.5 million, respectively.

Estimated future amortization expenses is as follows:

For the twelve months ending:

2016	$ 3,887,502
2017	3,846,677
2018	3,573,495
2019	3,193,178
2020	2,920,189
Thereafter	23,923,196
	$ 41,344,237

12. Investment in Bellator

The Company accounts for the investment in Bellator using the cost method less impairment. In September 2009, the Company invested $212,500 in Bellator Sport Worldwide, LLC ("Bellator") an early development stage company specialized in the promotion, marketing, and development of mixed martial arts. During the twelve months ended September 30, 2010 the Company invested $29,269 in Bellator. During the twelve months ended September 30, 2011, the Company recognized a $151,541 loss on the investment in Bellator by writing down the investment to $90,228 as of September 30, 2011. During the twelve months ended September 30, 2013, the Company invested $11,849 which increased the total investment to $102,077. Through September 30, 2014 and 2015 no additional investment has been made and no additional losses have been incurred.

13. Accrued Liabilities

Accrued liabilities at September 30, 2015 and 2014 consisted of the following:

	September 30, 2015	September 30, 2014
Accrued compensation and related taxes	$ 6,713,245	$ 6,912,253
Rebates payable	1,444,065	-
Medical and benefit related expense payables	769,903	603,637
Interest payable	655,840	-
Deferred rent	136,382	47,872
Other	734,314	916,477
Total	$ 10,453,749	$ 8,480,239

14. Term Loans and Lines of Credit

Term loans and lines of credit as of September 30, 2015 and 2014 consisted of the following:

	September 30, 2015	September 30, 2014
Cerberus Term Note	$ 103,031,250	$ -
Cerberus Line of Credit	21,411	-
M&T Term Note – ALJ	-	2,000,000
M&T Term Note – Faneuil	-	19,000,000
Other Term Agreements	-	56,789
Total	103,052,661	21,056,789

Estimated future minimum payments are as follows:

For the twelve months ending:

2016	$ 7,896,411
2017	7,875,000
2018	7,875,000
2019	7,875,000
2020	71,531,250
	$ 103,052,661

Term Loan and Line of Credit – Cerberus

Effective August 14, 2015, ALJ entered into a financing 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”) of which $2.2 million was drawn at the close of the stock purchase of Phoenix. The proceeds of these facilities were used together with cash-on-hand plus the proceeds from the sale of ALJ stock described below to fund the acquisition of Phoenix, to refinance the outstanding obligations of ALJ, Faneuil and Carpets and to provide working capital facilities to all three of ALJ’s subsidiaries and ALJ.

All borrowings under the Cerberus Debt are secured by substantially all of the Company's assets, and are subject to certain other terms. The Cerberus Debt includes limitations on the ability, among other things, to incur debt, to grant liens, to make certain investments, to make certain restricted payments such as dividend payments, and to dispose of assets, as well as requirements to meet a number of affirmative and negative covenants.

The Cerberus Term Loan accrues interest at a rate equal to either the LIBOR Rate + 6.5%, which was 7.5% at September 30, 2015, or the Reference Rate + 5.5%, at the discretion of the borrower. Interest payments are due in arrears on the first day of each month and a quarterly principal payment against the Cerberus Term Loan is due on the last day of each fiscal quarter, commencing September 30, 2015 in the amount of approximately $2.0 million, with a balloon payment due on the maturity date of August 14, 2020. The Company must pay an annual excess cash flow principal payment against the Cerberus Term Loan equal to 75% of the excess cash flow of the Company, as defined, commencing the year ended September 30, 2016, without penalty. 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. The Company may make a one-time payment against the loan with no penalty up to $10 million.

The Cerberus/PNC Revolver accrues interest on the outstanding balance at a rate equal to either the LIBOR Rate + 6.5%, or the Reference Rate + 5.5%, at the discretion of the borrower. Interest payments are due in arrears on the first day of each month. The Company 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 million in the aggregate up 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 million. Faneuil had a $1.0 million letter of credit under the agreement as of September 30, 2015. In November 2015, the Company increased the letter of credit by $1.2 million to $2.2 million. The Cerberus/PNC Revolver has a final maturity date of August 14, 2020.

At September 30, 2015, the Company was not required to test compliance with any covenants under the Loan Agreement. Subsequent to September 30, 2015, these covenants include a quarterly fixed charge coverage ratio and leverage ratio that the Company is required to maintain. The Company will be required to test our loan covenants as of December 31, 2015. The Company believes that we will be in compliance with the required covenants.

M&T Note Payable - ALJ

On September 30, 2014, ALJ refinanced its related party note payable of $2.0 million due to Libra Securities (see below) with a $2.0 million Term Loan with M&T. The ALJ Term Loan amortized over a period of 30 months at $66,667 per month plus accrued interest at a rate of Libor plus 3.75%. The ALJ Term Loan was secured by a first lien on all corporate assets owned by ALJ. The ALJ Term Loan was guaranteed by Faneuil and was secured by a lien on all of the corporate assets of Faneuil. This note was paid in full with the refinancing of the Cerberus Term Loan.

M&T Term Note and Line of Credit – Faneuil

On September 30, 2014, Faneuil refinanced its $25.0 million Harland Clarke Note and its $5 million Senior Credit Facility with M&T Bank (see below). Faneuil owed $21.6 million inclusive of accrued interest remaining on the Harland Clarke Note, and at closing paid down $2.6 million from cash on hand, leaving $19.0 million, which was refinanced under a term loan ("Term Loan") with M&T Bank. The $19.0 million Term Loan amortized over a period of 60 months at $316,667 per month plus accrued interest at a rate of Libor plus 3.75%. Faneuil also refinanced its $5.0 million revolving senior credit facility ("Revolver") with M&T Bank, which, as refinanced, has a two-year term and accrued interest at a rate of Libor plus 2.50%. On May 1, 2015, Faneuil modified its Revolver with M&T Bank to increase the amount available from $5.0 million to $10.0 million. The Term Loan and Revolver were guaranteed by Faneuil and secured by a lien on all of the corporate assets of Faneuil. The Term Loan was paid off with the refinancing with Cerberus on August 14, 2015 and the Revolver was terminated as well on August 13, 2015. Faneuil owed $0 and $19.0 million on the Term Loan as of September 30, 2015 and September 30, 2014, respectively. As of September 30, 2015 and 2014, Faneuil did not owe anything on the Revolver.

On October 18, 2013, Faneuil entered into the initial credit facility agreement, providing for the asset-based $5.0 million Revolver with M&T Bank. The Revolver was subject to customary conditions precedent as well as a borrowing base limitation. The Revolver accrued interest at Libor plus 2.5% and was secured by substantially all of Faneuil's assets. The Revolver contained customary representations, warranties and covenants, including a financial covenant requiring the borrowers to maintain a certain debt service coverage ratio.

M&T Line of Credit - Carpets

On September 30, 2014, Carpets entered into a $3.0 million Senior Credit Facility with M&T Bank ("Carpets Revolver"). The Carpets Revolver carried a term of 24 months and accrued interest at a rate of Libor plus 4.00%. The Carpets Revolver was secured by a first lien on all corporate assets of Carpets and its subsidiaries. The Carpets Revolver was guaranteed by Faneuil and secured by a lien on all of the corporate assets of Faneuil. On August 14, 2015, the Line of Credit was paid off by the

refinancing with Cerberus. There were no amounts outstanding under the Carpets Revolver as of September 30, 2015 and 2014.

Harland Clarke Term Note
On October 18, 2013, in conjunction with the acquisition of Faneuil, a $25.0 million Harland Clarke Note was issued by Faneuil. The Harland Clarke Note provided 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 had mandatory payments of $1,000,000 per quarter with an annual cash flow sweep based on a defined free cash calculation. Faneuil's obligations under the Harland Clarke Note were secured by a pledge of the Faneuil stock held by ALJ, subject to certain limitations. A Subordination and Intercreditor Agreement was also signed on October 18, 2013, by and among Faneuil and Harland Clarke Holdings Corp. (Harland Clarke), pursuant to which the Harland Clarke Note was subordinated to the Revolver. This agreement was terminated with the pay-off of the Harland Clarke Note on September 30, 2014.

Libra Securities – ALJ
ALJ entered into a $2.0 million Promissory Note Payable with Libra Securities Holdings, LLC, a related party on April 7, 2014. The Promissory Note, which was approved by the disinterested directors on the board of directors of ALJ, carried a 5-year maturity with a balloon payment due April 2019 and a 10% annual interest rate. The note was paid in full with the refinancing of the M&T Term Note on September 30, 2014.

Other Long Term Agreements
Carpets had other agreements that consist of amounts due to third party vendors and tax agencies. The amounts are unsecured and non-interest bearing. Carpets owed $0, and $56,789 under these agreements, as of September 30, 2015 and 2014, respectively.

15. Commitments and Contingencies

Leases
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:

For the twelve months ending:

2016	$	3,630,212
2017		3,351,578
2018		1,843,874
2019		1,076,137
2020		612,908
Thereafter		455,276
	$	10,969,985

During the twelve months ended September 30, 2015 and 2014 rental expense under operating leases was $4,260,186, and $1,932,328, respectively.

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:

For the twelve months ending:

2016	$	878,715
2017		878,715
2018		252,145
Total minimum payments required		2,009,575
Less imputed interest at rates ranging from 0% to 5.22%		71,592
Present value of net minimum lease payments	$	1,937,983

Surety Bonds
As part of our normal course of operations, one of our insurers issues surety bonds for us that are required by certain of our customers. We are obligated to reimburse our insurer for any of those surety bonds that are paid by the insurer. As of September 30, 2015 and 2014, the total face amount of those surety bonds was approximately $19.0 million and $17.0 million, respectively.

Legal Matters
As of September 30, 2015, Faneuil is a defendant in actions for matters arising out of normal business operations. The Company 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. The Company's initial assessment concludes that the risk of a material adverse impact is remote. As such, no amounts have been accrued as contingencies at September 30, 2015.

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

16. Income Taxes

For the twelve months ended September 30, 2015 and 2014, the Company recognized an income tax benefit due to taxable income from operations. The provision for income taxes related to continuing operations for the twelve months ended September 30, 2015 and 2014 consisted of the following:

	2015		2014	
Income tax expense – current				
Federal	$	-	$	281,447
State		800,135		395,684
	$	800,135	$	677,131
Income tax benefit – deferred				
Federal	$	2,232,135	$	2,552,102
State		(58,532)		24,538
Change in valuation allowance		(8,430,273)		(7,797,063)
		(6,256,670)		(5,220,423)
	$	(5,456,535)	$	(4,543,292)

Significant components of the Company's deferred tax liabilities and assets as of September 30, 2015 and 2014 are as follows:

	2015		2014	
Net deferred tax assets:				
Net operating loss carryforward	$	54,849,628	$	57,340,070
Allowance for doubtful accounts		120,562		300,000
Accrued expenses and other		1,554,224		721,000
Deferred revenue		208,738		660,000
Other (WOTC and AMT credit carryforward)		2,093,580		2,034,706
Net deferred tax asset	$	58,826,732	$	61,055,776
Net deferred tax liabilities				
Tax depreciation in excess of book	$	(6,456,491)	$	(918,000)
Tax amortization in excess of book		(14,220,266)		(5,377,627)
Net deferred tax liabilities	$	(20,676,757)	$	(6,295,627)
Total net deferred tax assets	$	38,149,975	$	54,760,149

Less Valuation Allowance	$	(46,329,876)	$	(54,760,149)
	$	(8,179,901)	$	-

The difference between the federal statutory rate of 35% and the effective tax rate of (83.05%) for the year ended September 30, 2015 is mainly due to the change in the valuation allowance as indicated below:

Federal tax at statutory rate	35.00%
State tax, net of federal benefit	7.34%
Permanent differences	1.85%
Credits Used	(2.08%)
Change in valuation allowance	(125.16%)
Net Rate	(83.05%)

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 June 2011 by federal, state and local tax authorities for various tax liabilities incurred by the parent entity and its subsidiaries, including any discontinued businesses. Tax years ending June 30, 2001 through June 30, 2009 generated a net operating loss carry forward and remain subject to examination. The amount of any tax assessments and penalties may be material and may negatively impact the Company's operations. Given the uncertainty in the amount and the difficulty in estimating the probability of the assessments arising from future tax examinations, the Company has not made any accruals for such tax contingencies.

For the twelve months ended September 30, 2015, the net deferred tax assets decreased by $8,179,901. This decrease was primarily the result of the reduction in the valuation allowance against the net deferred tax asset and the tax effects of the purchase of Phoenix Color Corp Inc.

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carry-forward. There has been significant positive evidence established by the Company to justify that only a partial valuation allowance is necessary. The Company has shown consistent profitability over the past three years. Management also projects continued taxable income. Management believes it will be able to recognize a portion of its NOLs over the coming years. A valuation allowance of $46,329,876 has been established against the net deferred tax asset of $58,826,732 as of September 30, 2015.

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

The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ended September 30, 2015 and 2014.

At September 30, 2015, the Company had a net operating loss carry-forward for federal income tax purposes of approximately $162 million that expires from 2020 through 2028. Approximately $140 million of the carry-forward expires in 2022. In addition the use of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

17. Stock Options and Share-based Compensation

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 twelve months ended September 30, 2015 and 2014, the Company recognized share-based compensation expense of $1,229,364 and $63,250, 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 computation of the expected option life assumption is based on a weighted average calculation combining the average historical exercise activity and assumptions regarding the estimated life of all unexercised, outstanding stock options. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected term of employee stock options. The expected volatility is based on the historical volatility of the Company's stock. No dividends on common stock have been paid since the Company's inception and, the Company does not anticipate paying dividends on common stock in the foreseeable future.

The Company issued options to purchase 850,000 and 100,000 shares of common stock during the twelve months ended September 30, 2015 and 2014. For stock options granted during the twelve months ended September 30, 2015 and 2014, the Company computed expected option life of 3.5 years and 7 years, volatility of 58.44% and 76.97% and a risk-free interest rate of 0.99% and 1.96%. 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 following summarizes stock option activity during the twelve months ended September 30, 2015 and 2014.

	Number of Shares	Weighted-Average Exercise Price
Balance at September 30, 2013	3,375,000	$0.62
Exercised	-	-
Granted	100,000	1.60
Forfeited or expired	-	-
Balance at September 30, 2014	3,475,000	$0.65
Exercised	2,041,000	0.41
Granted	850,000	4.11
Forfeited or expired	-	-
Balance at September 30, 2015	2,284,000	$2.15

The following table summarizes outstanding and exercisable options for the twelve months ended September 30, 2015 and 2014.

		Options Outstanding			Options Exercisable	
Fiscal Year Ended	Range of Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
2015	$0.59 - $4.27	2,284,000	6.1 years	$2.15	1,911,743	$1.79

2014	$0.40 - $1.60	3,475,000	4.6 years	$0.65	3,400,000	$0.62

During the twelve months ended September 30, 2014, the Company issued 133,747 restricted shares, to the Board of Directors and its Executive Chairman as part of their compensation. The restricted shares vested monthly over a one year period. The restricted shares were issued at a share price of $3.04 per share. The Company recorded stock based compensation expense related to these shares of approximately $211,000 and $60,000, during the years ended September 30, 2015 and 2014, respectively. The Company did not issue any restricted shares to the board of directors for their services for the year ended September 30, 2015.

In January 2015, Jess Ravich, the Company's Executive Chairman, exercised a portion of his stock options to purchase 2,000,000 shares of common stock for $800,000. His shares were fully vested and had a strike price of $0.40 per share. The closing stock price on the date of exercise was $4.05 per share. The intrinsic value of these options at the time of exercise was $7.3 million.

The intrinsic value of the outstanding options as of September 30, 2015 and 2014 was $4.3 million and $9.9 million, respectively.

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 $216,400 and $176,713, included in the selling, general and administrative expenses for the twelve months ended September 30, 2015 and 2014, respectively.

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 Ms. Van Buren, the Chief Executive Officer of Faneuil. On July 10, 2015, all of Ms. Van Buren equity interests, including her option to purchase additional shares of stock in Faneuil were exchanged for stock in ALJ, as a result, all outstanding stock options were cancelled.

For stock options granted by Faneuil during the twelve months ended September 30, 2014, the Company computed volatility of 33.10% and a risk-free interest rate of 1.95%. 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.

18. Related Party Transactions

Harland Clarke has contracted with Faneuil to provide call center services to support Harland Clarke's banking related products and managed print services. Under these two contracts, Faneuil has recognized $2.2 million and $0.4 million, respectively, for the twelve months ending September 30, 2015 and $1.9 million and $0.4 million, respectively, for the twelve months ending September 30, 2014.

The board of directors approved to pay Jess Ravich, our Executive Chairman, his salary in a lump sum payment of $125,000 beginning in 2015. As of September 30, 2015, the Company had recorded a prepaid expense of $31,250 related to this transaction.

The Company entered into an employment agreement with Mr. Reisch on August 14, 2015, providing for Mr. Reisch's employment as Chairman of Phoenix Color Corp. through December 31, 2018 unless terminated earlier by the Company or Mr. Reisch. Mr. Reisch is to be paid a $200,000 annual base salary and is eligible for an annual bonus equal to 5% of the excess of EBITDA over $20,000,000. On August 14, 2015, Mr. Reisch was granted a stock option covering 250,000 shares of the Company's common stock with an exercise price of $4.27 per share vesting in three equal annual installments on October 1 of each of 2016, 2017, and 2018, subject to continued service; provided, however, vesting accelerates upon certain involuntary terminations. The option expires on August 13, 2025. Mr. Reisch is eligible to receive additional option grants, each such grant covering 100,000 shares of the Company's common stock and vesting over four years, for each subsequent Company acquisition approved by the Company's board of directors if the board determines the acquisition was the direct results of the

actions of Mr. Reisch. Mr. Reisch's employment agreement provides for severance pay in connection with certain involuntary terminations consisting of base salary for the greater of (1) half the remaining term, and (2) 12 months, continuation of health benefits for the same duration, his annual bonus for the year of termination to the extent a bonus is otherwise earned, and his prior year earned annual bonus, if any, to the extent still unpaid.

On August 14, 2015, the Board granted options to purchase 100,000 shares of our common stock to Kevin Hayden, Phoenix's COO. The exercise price for such option is $4.27 vesting in three equal annual installments on October 1 of each of 2016, 2017, and 2018, subject to continued service; provided, however, vesting accelerates upon certain involuntary terminations. The option expires on August 13, 2025.

On August 3, 2015, the Board granted fully vested options to purchase 350,000, 100,000 and 50,000 shares of our common stock to Jess Ravich, our Executive Chairman, Rae Ravich, a Director, and Rob Christ, our CFO in consideration of their efforts related to the Phoenix acquisition. The exercise price for such option is $4.00 and expires on August 3, 2022.

On July 10, 2015, Anna Van Buren, the Chief Executive Officer of Faneuil, and Tarsha Leherr, the Vice President of Operations of Faneuil, exchanged their 32,857 and 3,286 shares of common stock of Faneuil, respectively, for 1,500,000 shares and 150,000 shares of common stock of ALJ, respectively, using an exchange ratio of 45.65 shares of ALJ common stock for each share of Faneuil common stock. The Company evaluated the terms of the shares exchange and estimated the fair value of the ALJ shares exchanged for the equity of Faneuil and Carpets and recorded stock based compensation expense of approximately $200,000. Ms Van Buren forfeited 60,000 stock options as a result of this transaction.

On July 10, 2015, Steve Chesin, the Chief Executive Officer of Carpets, exchanged his 750,000 Class B Preferred Units with a preference amount equal to $750,000, 75,000 Common Units and 40,000 Equity Award Units of Carpets for 150,000 shares of common stock of ALJ.

On July 10, 2015, Marc Reisch and Kevin Hayden purchased 400,000 and 50,000 shares of common stock of ALJ in a private placement for an aggregate consideration of $1,520,000 and $190,000, respectively.

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 Ms. Van Buren, a director of the Company and Faneuil, an option to purchase 60,000 shares of Faneuil's common stock under the Plan. Such was cancelled on July 10, 2015, as Ms. Van Buren exchanged her equity interests in Faneuil for common stock in ALJ.

On April 7, 2014, ALJ entered into a promissory note payable in the amount of $2.0 million from Libra Securities Holdings, LLC, a related party. The Promissory Note, which was approved by the disinterested directors on the board of directors of ALJ, carries a 5-year maturity with a balloon payment due April 2019 and a 10% annual interest rate. The Promissory Note may be pre-paid at any time without penalty. Interest is payable quarterly but may be capitalized by ALJ at its election.

On March 14, 2014, the Board agreed to increase the compensation of Mr. Ravich from $50,000 to $125,000 per year. On July 21, 2014, the Board approved Mr. Ravich receiving his compensation for 2014 in the form of 53,248 shares of stock at $3.04 per share.

On October 18, 2013, in conjunction with the acquisition of Faneuil, a $25.0 million Harland Clarke Note was issued by Faneuil. The Harland Clarke Note provided 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 had mandatory payments of $1,000,000 per quarter with an annual cash flow sweep based on a defined free cash calculation. Faneuil's obligations under the Harland Clarke Note were secured by a pledge of the Faneuil stock held by ALJ, subject to certain limitations. A Subordination and Intercreditor Agreement was also signed on October 18, 2013, by and among Faneuil and Harland Clarke

Holdings Corp. (Harland Clarke), pursuant to which the Harland Clarke Note was subordinated to the Revolver. This agreement was terminated with the pay-off of the Harland Clarke Note on September 30, 2014.

19. Subsequent events

The Company has evaluated all events or transactions that occurred after the balance sheet date of September 30, 2015, through December 31, 2015, the date the annual financial statements were available to be issued.