ALJ REGIONAL HOLDINGS, INC.

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Quarterly Report for the
Period Ended
June 30, 2013

ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this report (the "Report") regarding financial and operating performance and other statements that are not historical facts, including, among others, statements regarding the Company's business strategy following its disposition of its former operating subsidiary, KES Acquisition Company, a Delaware corporation ("KES"), its ability to identify and successfully acquire and integrate other operating businesses, the adequacy of its current cash resources to fund its current and contemplated operations and its ability to offset future income against net operating loss carryforwards ("NOLs") and use its rights plan to preserve NOLs, constitute forward-looking statements. In general, you can identify forward-looking statements by the presence of words such as "anticipate," "believe," "estimate," "expect, "intend," "may", "plan," "predict," "project," "will," and similar expressions.

Forward-looking statements are based on reasonable expectations and are subject to risks and uncertainties. Actual results will differ, perhaps materially, from those set forth or implied by such forward-looking statements due to a variety of factors, including, among others:

- The Company's lack of operations and limited ability to raise financing;
- Uncertainties related to the Company's intent to invest in or acquire control of one or more operating businesses, including its ability to identify, diligence, negotiate, raise financing for and successfully acquire and integrate any operating businesses;
- The Company's ability to acquire operating businesses before its lack of operations impairs its NOLs or subjects it to additional regulatory requirements;
- Uncertainties related to the industry and particular operating businesses which the Company may eventually acquire;
- The Company's ability to compete successfully against other potential acquirers of operating businesses with more experience and resources;
- Uncertainties related to management's investment of the Company's cash pending any acquisitions or strategic investments;
- Uncertainties related to a downturn in general economic conditions or consumer confidence, including changes in conditions of U.S. or international lending, capital and financing markets;
- Changes in tax laws or regulations regarding the use or preservation of NOLs; and
- Private or governmental liability claims or litigation, or the impact of any adverse outcome of any litigation on the adequacy of the Company's reserves, the availability or adequacy of its insurance coverage, its financial well-being or its business and assets.

The Company is also subject to general business risks, including its success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters.

Any forward-looking statements included in this Report are made as of the date hereof and based on information available to the Company as of the date hereof. Subject to applicable law, the Company assumes no obligation to update any forward-looking statements.

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

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

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

References to the "Company," "we," "us" and "our" are to the consolidated operations of ALJ, including the operations of its subsidiaries, except to the extent the context is intended to refer only to ALJ. The Company was originally incorporated in the State of Delaware under the name Nuparent, Inc. on June 22, 1999. The Company's name was changed to YouthStream Media Networks, Inc. on June 24, 1999 and that name was used through October 23, 2006. The Company's name was changed to ALJ Regional Holdings, Inc. on October 23, 2006.

The Company's investor relations contact is Jess Ravich, the Executive Chairman of the Board. Mr. Ravich can be reached at (213) 244-0045. The Company maintains a website at www.aljregionalholdings.com.

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

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

ITEM 2. SHARES OUTSTANDING

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

	Common Stock Period End Date			Preferred Stock Period End Date		
	June 30, 2013	September 30, 2012	September 30, 2011	June 30, 2013	September 30, 2012	September 30, 2011
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	26,684,998	57,246,598	56,934,040	0	0	0

On February 12, 2013, the Company used $25,200,000 to purchase 30,000,000 shares of its outstanding common stock at $0.84 per share under a modified "Dutch auction" tender offer. These shares were immediately retired.

In June 2013, the Company retired 761,600 shares of its common stock held in treasury.

Of the 5,000,000 shares of preferred stock authorized, 1,000,000 shares have been designated as Series A Preferred Stock, none of which are currently issued and outstanding and 550,000 shares have been designated as Series B Preferred Stock, none of which are currently issued and outstanding.

As of June 30, 2013, there were 204 holders of record of the Company's common stock.

ITEM 3. INTERIM FINANCIAL STATEMENTS

EXPLANATORY NOTE

As described in more detail under Note 5 below, effective February 5, 2013, ALJ sold its majority owned subsidiary KES, now a Discontinued Business. KES, which owned and operated a steel mini-mill (the "Mill"), represented the only business segment in which the Company operated as of February 5, 2013. Therefore, the interim financial statements set forth below reflect the current financial statements of ALJ, and KES as a Discontinued Operation. Because ALJ no longer owns KES, KES' operations have not been included in ALJ's consolidated financial statements since February 5, 2013, and will not be included in ALJ's consolidated financial statements for future periods. Following the disposition of KES, ALJ has only nominal operations and its only assets are cash on hand, short term investments and an immaterial amount of other assets.

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

	June 30, 2013	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,680,274	$ 2,823,576
Short term investments	20,231,865	-
Accounts receivable, less allowance for doubtful accounts of $534,447 at September 30, 2012	-	11,548,624
Inventories	-	24,005,885
Prepaid expenses and other current assets	57,708	1,252,102
Other receivables	-	71,701
Dividend receivables	47,919	-
Deferred taxes	-	6,285,599
Discontinued operations – current assets		
Total current assets	28,017,766	45,987,487
Property, plant and equipment	-	5,177,477
Less accumulated depreciation and amortization	-	(2,934,624)
Property, plant and equipment, net	-	2,242,853
Other assets:		
Deposits	-	224,460
Deferred loan costs, net of amortization	-	274,494
Investment in Bellator	102,077	90,228
Total other assets	102,077	589,182
Total assets	$ 28,119,843	$ 48,819,522

(continued)

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

(continued)

	June 30, 2013	September 30, 2012
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$ -	$ 7,619,591
Accrued expenses	-	4,522,920
Income taxes payable	-	50,485
Current portion of term loans	-	4,000,000
Liabilities related to discontinued operations	298,466	298,466
Total current liabilities	$ 298,466	$ 16,491,462
Non-current liabilities:		
Secured line of credit	-	7,167,015
8% subordinated term loans	-	18,998,213
Series A Preferred stock of subsidiary subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share; 0 shares issued and outstanding at June 30, 2013 plus cumulative dividends of $0, 5,936 shares issued and outstanding at September 30, 2012 plus cumulative dividends of $5,867,750	-	11,803,750
Deferred tax liability	-	403,746
Minority interest – related parties	-	7,266,179
Total liabilities	$ 298,466	$ 62,130,365
Commitments and contingencies		
Stockholders' equity (deficiency):		
Common stock, $0.01 par value; authorized - 100,000,000 shares; 26,684,998 issued and outstanding at June 30, 2013 and 57,246,598 issued and outstanding at September 30, 2012	266,850	572,466
Additional paid-in capital	262,694,052	288,426,728
Accumulated deficit	(234,967,466)	(301,405,879)
Accumulated comprehensive loss	(143,032)	-
Treasury stock – 25,000 shares, at cost	(29,027)	(904,158)
Total stockholders' equity (deficiency)	27,821,377	(13,310,843)
Total liabilities and stockholders' equity (deficiency)	$ 28,119,843	$ 48,819,522

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Nine months Ended June 30,	
	2013	2012	2013	2012
NET SALES	$ 0	$ 0	$ 0	$ 0
COSTS AND EXPENSES				
Cost of sales	0	0	0	0
Selling	0	0	0	0
General and administrative	107,904	136,880	457,122	385,868
Total cost of operations	107,904	136,880	457,122	385,868
(Loss) Income from operations	(107,904)	(136,880)	(457,122)	(385,868)
OTHER INCOME (EXPENSE)				
Interest and dividend income	240,245	6,853	451,289	12,145
Gain on sale of KES	0	0	76,806,891	0
Gain on settlement of Minority Interest	0	0	10,029,058	0
Total other income (expense)	240,245	6,853	87,287,238	12,145
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, DISCONTINUED OPERATIONS AND MINORITY INTEREST	132,341	(130,027)	86,830,116	(373,723)
INCOME TAXES ON CONTINUING OPERATIONS	0	0	(7,240,430)	0
INCOME BEFORE DISCONTINUED OPERATIONS AND MINORITY INTEREST	132,341	(130,027)	79,589,686	(373,723)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	0	3,322,790	(159,164)	9,751,282
INCOME TAXES ON DISCONTINUED OPERATIONS	0	(238,125)	0	(645,550)
INCOME FROM DISCOUNTINUED OPERATIONS, NET OF TAXES	0	3,084,665	(159,164)	9,105,732
INCOME BEFORE MINORITY INTEREST	132,341	2,954,638	79,430,522	8,732,009
MINORITY INTEREST	0	(435,725)	(12,992,109)	(1,382,356)
NET INCOME	132,341	2,518,910	66,438,413	7,349,653
NET INCOME (LOSS) PER COMMON SHARE -				
Basic	$0.00	$0.04	$1.57	$0.13
Dilutive	$0.00	$0.04	$1.49	$0.12
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	27,057,648	57,090,319	41,957,648	57,090,319
Dilutive	29,257,648	59,390,319	44,257,648	59,490,319

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)
NINE MONTHS ENDED JUNE 30, 2013

	Common Stock		Additional	Comprehensive			
	Shares	Amount	Paid-in Capital	(Loss) Income	Accumulated Deficit	Treasury Stock	Total
Balances at September 30, 2012	57,246,598	$ 572,466	$ 288,426,728	$ 0	$ (301,405,879)	$ (904,158)	$ (13,310,843)
Share-based compensation: Exercise of stock options	200,000	2,000	44,000				46,000
Repurchase and retirement of Common Stock through Tender Offer	(30,000,000)	(300,000)	(24,900,000)				(25,200,000)
Net income					66,438,413		66,438,413
Comprehensive (Loss)				$ (143,032)			(143,032)
Repurchase of Treasury Stock	(761,600)	(7,616)	(876,676)			$ 875,131	(9,161)
Balances at June 30, 2013	26,684,998	$ 266,850	$ 262,694,052	$ (143,032)	$ (234,967,466)	$ (29,027)	$ 27,821,377

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 66,438,413	$ 1,723,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	-	90,167
Stock-based compensation	-	6,090
Gain on the sale of KES	(76,806,891)	-
Gain on the sale of Minority Interest	(10,029,058)	-
Payment of fees associated with the sale of KES	(8,036,882)	-
Comprehensive loss	(143,032)	-
Amortization of deferred loan costs	-	25,900
Income from discontinued operations	(159,164)	-
Provision for bad debts	-	(92,019)
Minority interest – related parties	12,977,301	309,044
Changes in operating assets and liabilities:		
(Increase) decrease in -		
Accounts receivable, net	-	2,723,866
Inventories	-	(2,972,204)
Dividend receivables	(47,919)	-
Net deferred taxes	5,881,853	-
Prepaid expenses and other receivables	62,489	418,122
Increase (decrease) in -		
Accounts payable	-	(749,580)
Accrued expenses	-	876,992
Income taxes payable	(50,485)	(5,929)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(9,913,375)	2,354,215
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from the sale of KES	112,500,000	-
Cash received from 8% loans payable from KES	267,622	-
Cash received from sale of ALJ's portion of Series B Common Stock in KES	126,845	-
Purchase of short term investments	(20,231,865)	-
Investment in Bellator	(11,849)	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	92,650,753	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of stock options	46,000	-
Net borrowings (repayments) under equipment capital lease obligation	-	(40,985)
Net borrowings (repayments) under 8% term loans	-	530,595
Repayment of 8% term loan	(19,265,835)	-
Accrued dividends (repayments) of Preferred Stock	-	194,555
Repayment of 13% Preferred Stock	(11,803,750)	-
Purchase and retirement of Common Stock	(25,200,000)	-
Repurchase of Common Stock	(9,161)	-
Repayments on term loans	(4,000,000)	(1,035,208)
Payment for Series B Common Minority shares of KES	(10,480,919)	-
Net repayments under secured line of credit	(7,167,015)	(1,013,363)
NET CASH (USED IN) FINANCING ACTIVITIES	(77,880,680)	(1,364,406)
NET CASH (USED IN) PROVIDED BY OPERATING, INVESTING AND FINANCING ACTIVITIES	4,856,698	989,809
CASH AND CASH EQUIVALENTS		
Net (decrease) increase	4,856,698	989,809
Balance at beginning of period	2,823,576	1,282,228
Balance at end of period	7,680,274	2,272,037
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	8,078,135	132,828
Income taxes	1,654,395	351,698

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2013

1. Organization and Basis of Presentation

Basis of Presentation

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

Effective February 5, 2013, ALJ sold its majority owned subsidiary KES. KES, which owned and operated a steel mini-mill (the "Mill"), represented the only business segment in which the Company operated as of February 5, 2013. Therefore, the interim financial statements reflect KES as a discontinued operation. Because ALJ no longer owns KES (See Note 5), KES' operations have not been included in ALJ's consolidated financial statements since February 5, 2013, and will not be included in ALJ's consolidated financial statements for future periods. Following the disposition of KES, ALJ has no or only nominal operations and, other than cash and short term investments, an immaterial amount of assets.

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 period. Actual results could differ from those estimates.

Given the Company's disposition of KES, the results of operations for the three and nine months ended June 30, 2013 are not indicative of the results of operations to be expected for the full fiscal year ending September 30, 2013.

Liquidity and Capital Resources

The Company recognized net income of $66.4 million for the nine month period ended June 30, 2013 and generated a positive cash flow from investing activities of $85.1 million, partially offset by cash used in operating activities of $9.9 million and financing activities of $77.9 million for the nine months ended June 30, 2013. The Company had an accumulated deficit of $235.0 million and stockholders' equity of $27.8 million at June 30, 2013.

The Company recognized net income of $13.3 million for the year ended September 30, 2012 and generated a positive cash flow from operating activities of $14.7 million for the year ended September 30, 2012. The Company used $13.1 million in financing activities, $70,274 from investing activities and had a stockholder's deficit of $13.3 million at September 30, 2012, which was primarily comprised of an accumulated deficit of $301.4 million, partially offset by an increase in additional paid-in-capital of $288.4 million at September 30, 2012.

On February 5, 2013, the Company sold KES to Optima Specialty Steel, Inc. ("Optima") for $114.4 million. After satisfying all of KES' liabilities, the Company increased the cash on its balance sheet to approximately $52.6 million. On February 12, 2013, the Company repurchased 30,000,000 shares of its common stock in a modified "Dutch auction" tender offer at $0.84 per share for total consideration of $25.2 million, leaving approximately $27.4 million in cash and short term investments on the Company's balance sheet as of June 30, 2013.

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

The Company plans to use its cash resources for future acquisitions or investments in other companies and businesses or for other strategic options. However, the Company is not required to make any such acquisitions, and at this time no agreements, understandings or commitments as to any specific acquisition have been made. Further, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or the issuance of equity securities.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding company, whose primary assets are approximately $27.9 million in cash and short-term investments.

Cash and Cash Equivalents

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

Short Term Investments

Management determines the appropriate classification of investments at the time of purchase and evaluates such determination as of each balance sheet date. The Company's investments were classified as available-for-sale securities and were stated at fair value at June 30, 2013. Realized gains and losses are included in other income (expense) based on the specific identification method. The Company did not have any realized gains or losses for the nine months ended June 30, 2013 or June 30, 2012. Net unrealized gains and losses on available-for-sale securities are reported as a component of other comprehensive income (loss), net of tax. For the nine months ended June 30, 2013, the net unrealized losses on available-for-sale securities was $143,032. The Company regularly monitors and evaluates the fair value of its investments to identify other-than-temporary declines in value. Management believes no such declines in value existed at June 30, 2013.

Stock-Based Compensation

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

dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, uses an expected dividend yield of zero.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

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

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

Concentrations

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

Earnings Per Share

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

The following table summarizes the basic and diluted weighted average shares for the three and nine months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
Weighted average shares outstanding, basic	27,057,648	57,090,319	41,957,648	57,090,319
Dilutive effect of:				
Options to purchase common stock	2,200,000	2,300,000	2,300,000	2,400,000
Weighted average shares outstanding, diluted	29,257,648	59,390,319	44,257,648	59,490,319

Recently Issued or Adopted Accounting Standards

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

3. Related Party Transactions

See Note 5, Discontinued Operations Related to KES

4. Discontinued Operations Unrelated to KES

As of June 30, 2013 and September 30, 2012, the Company maintained an estimated accrual of liabilities associated with the discontinued operations separate from KES of $298,000, remaining from its previously discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the previously discontinued businesses.

5. Discontinued Operations Related to KES

On November 18, 2012, ALJ and KES entered into a definitive merger agreement (the “Merger Agreement”) for the sale of KES to Optima (the “Merger”). The Merger was effected as a merger of Optima’s wholly owned subsidiary KES Optima Acquisition Inc. with and into KES with KES surviving as a wholly owned subsidiary of Optima. On February 5, 2013, ALJ sold KES to Optima for $114.4 million in cash.

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

DISCONTINUED OPERATIONS - KES
STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Nine months Ended June 30,	
	2013	2012	2013	2012
NET SALES	$ -	$42,119,278	$48,002,933	$125,398,237
COSTS AND EXPENSES				
Cost of sales	-	35,781,337	44,082,121	106,273,613
Selling	-	530,542	727,809	1,645,270
General and administrative	-	1,692,124	2,435,276	5,158,973
Total cost of operations	-	38,004,003	47,245,206	113,077,856
Income from operations	-	4,115,275	757,727	12,320,381
OTHER INCOME (EXPENSE)				
Interest and dividend income	-	-	4,763	9,000
Interest expense	-	(794,787)	(924,664)	(2,584,905)
Other income (expense), net	-	2,302	3,010	6,806
Total other (expense) income	-	(792,485)	(916,891)	(2,569,099)
INCOME (LOSS) BEFORE INCOME TAXES	-	3,322,790	(159,164)	9,751,282
Income taxes	-	(238,125)	0	(645,550)
INCOME (LOSS) FROM KES	-	3,084,665	(159,164)	9,105,732

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

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

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

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

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

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

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

The Company used approximately $25.2 million of the unrestricted cash at ALJ following the Merger to purchase 30,000,000 shares of its common stock from its stockholders at $0.84 per share using a self-tender offer (the "Tender Offer"). The Tender Offer expired on February 8, 2013 and the Company closed the Tender Offer on February 12, 2013. The Company plans to use the remainder of the cash at ALJ for future acquisitions or investments in other companies and businesses or for other strategic options. However, the Company is not required to make any such acquisitions, and at this time no agreements, understandings or commitments as to any specific acquisition have been made.

In connection with the Merger and Tender Offer, ALJ decided to postpone any relisting of its stock on a national exchange until such time when it has substantial operations and the Board determines that the cost of such listing is warranted and beneficial to ALJ stockholders.

6. Income Taxes

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

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

For the nine months ended June 30, 2013, the net deferred tax asset is $0. This is a decrease of $5,881,853 from the net deferred tax asset reported on September 30, 2012. This decrease was primarily the result of ALJ selling its interest in its majority-owned subsidiary KES. For U.S. federal tax purposes, ALJ will report the sale as an asset sale in accordance with Section 338(h)(10). The sale generated approximately $82 million in taxable capital gain which was offset by the Company's net operating loss carryforwards. ALJ was subject to approximately $1.65 million of alternative minimum tax. The utilization of the net operating losses has significantly reduced the deferred tax asset which was reported on the September 30, 2012 financial statements.

In assessing the realization of the remaining deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main components of the deferred tax assets are the net operating loss carryforwards. At this time, the remaining businesses of ALJ do not project to be profitable in the near future, thus the Company has decided to establish a full valuation allowance against the remaining balance of the deferred tax assets. A valuation allowance of $60 million has been established against the net deferred tax asset of $60 million as of June 30, 2013.

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

At June 30, 2013, the Company has net operating loss carryforwards for federal income tax purposes of approximately $176 million that expire from 2020 through 2028. The use of approximately $36,000,000 of these net operating losses in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

7. Share-based Compensation and Stock Options

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 nine months ended June 30, 2013 and 2012, the Company recognized share-based share compensation expense of $[0] and $18,273, respectively.

All share-based payments to employees are recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. The Company did not issue restricted stock grants or stock options for the twelve months ended September 30, 2012. The Company issued stock grants of 15,243 shares per director at the annual board meeting on June 21, 2013, valued at $0.83 per share. These shares will begin vesting on July 1, 2013. For restricted stock grants issued during the twelve months ended September 30, 2011, the Company computed volatility of 106% and a risk-free interest rate of 0.15%. Volatility was computed over the most recent period commensurate with the expected term of the options and restricted stock. 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 and restricted stock. The Company has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly, uses an expected dividend yield of zero.

The summary of stock option activity for the nine months ended June 30, 2013 is as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term
Balance outstanding as of September 30, 2012	2,400,000	$0.40	4.7 years
Exercised	200,000	$0.23	5.0 years
Balance outstanding as of June 30, 2013	2,200,000	$0.38	4.5 years
Options vested as of June 30, 2013	2,200,000	$0.38	4.5 years

8. Tender Offer

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

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

General Overview

Commencing March 1, 2005 and ending February 5, 2013, the Company included the operations of the Mill, which represented the only business segment in which the Company operated, in its consolidated financial statements. The Company completed the acquisition of the Mill on March 9, 2005. As discussed in further detail below, on February 5, 2013, the Company completed the disposition of KES (including the Mill).

Critical Accounting Policies and Estimates

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

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

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

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

Tender Offer

The Company used approximately $25.2 million of its unrestricted cash following the Merger to purchase 30,000,000 shares of its common stock from its stockholders at $0.84 per share in the Tender Offer. The Company plans to use its existing cash resources for future acquisitions or investments in other companies and businesses or for other strategic options. However, the Company is not required to make any such acquisitions, and at this time no agreements, understandings or commitments as to any specific acquisition have been made.

Results of Operations for the Three and Nine months Ended June 30, 2013 and 2012

The following table sets forth selected unaudited consolidated statements of operations data for each of the periods indicated on an actual basis and as a percentage of total revenues for the respective periods.

	Three Months Ended June 30,		Nine months Ended June 30,	
	2013	2012	2013	2012
Net Sales	$ 0	$ 0	$ 0	$ 0
Cost of sales	0	0	0	0
Gross Profit	0	0	0	0
Selling	0	0	0	0
General and administrative	107,904	136,880	457,122	385,868
Income from operations	(107,904)	(136,880)	(457,122)	(385,868)
Dividend and interest income	240,245	6,853	451,289	12,145
Gain on sale of KES	0	0	76,806,891	0
Gain on sale of Minority Interest	0	0	10,029,058	0
Income from Continuing Operations	132,341	(130,027)	86,830,116	(373,723)
Income taxes on Continuing Operations	0	0	(7,240,430)	0
Income from Discontinued Operations (Net of income taxes)	0	3,084,665	(159,164)	9,105,732
Income before Minority Interest	132,341	2,954,638	79,430,522	8,732,009
Minority Interest	0	435,728	12,992,109	1,382,356
Net income	132,341	2,518,910	66,438,413	7,349,653

For the three months ended June 30, 2013 and 2012

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2013 were $107,904, a decrease of $28,976, or 21% over general and administrative expenses of $136,880 for the three months ended June 30, 2012. The decrease was primarily attributable to lower legal fees.

Dividend and Interest Income

Dividend and interest income for the three months ended June 30, 2013 were $240,245, an increase of $233,392 over dividend and interest income of $6,853 for the three months ended June 30, 2012. The increase was primarily attributable to significantly higher cash and short term investment balances, providing for higher interest and dividends.

For the nine months ended June 30, 2013 and 2012

General and Administrative Expenses

General and administrative expenses for the nine months ended June 30, 2013 were $457,122, an increase of $71,254, or 18% over general and administrative expenses of $385,868 for the nine months ended June 30, 2012. The increase was primarily attributable to higher legal fees in connection with the sale of KES.

Dividend and Interest Income

Dividend and interest income for the nine months ended June 30, 2013 were $451,289, an increase of $439,144 over dividend and interest income of $12,145 for the nine months ended June 30, 2012. The increase was primarily attributable to significantly higher cash and short term investment balances, providing for higher interest and dividends.

Gain on the Sale of KES

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

Gain on the Settlement of Minority Interest

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

Income from Continuing Operations

Income from continuing operations for the nine months ended June 30, 2013 was approximately $86.8 million compared to a loss of $373,723 for the nine months ended June 30, 2012. The increase was primarily attributable to the gain on the sale of KES and gain on the sale of minority interest.

Income taxes from Continuing Operations

Income taxes from continuing operations for the nine months ended June 30, 2013 were $7.2 million compared with $0 for the nine months ended June 30, 2012. The increase was primarily attributed to the write off of approximately $5.6 million of deferred tax asset related to the Company's net operating losses, and $1.6 million associated with the sale of KES.

Income (Loss) from Discontinued Operations

Loss from discontinued operations for the nine months ended June 30, 2013 were $(159,164), a decrease of $9.9 million, over income from discontinued operations of $9.8 million for the nine months ended June 30, 2012. The decrease was primarily attributable to a shorter operating time frame, as KES was sold on February 5, 2013, thus there were fewer days of operations for the nine months ended June 30, 2013 compared to the nine months ended June 30, 2012. Additionally, management was focused on the sale and transition of KES.

Liquidity and Capital Resources – June 30, 2013

The Company recognized net income of $66.4 million for the nine month period ended June 30, 2013 and generated a positive cash flow from investing activities of $85.1 million, partially offset by cash used in operating activities of $9.9 million and financing activities of $77.9 million for the nine months ended June 30, 2013. The Company had an accumulated deficit of $235.0 million and stockholders' equity of $27.8 million at June 30, 2013.

The Company recognized net income of $13.3 million for the year ended September 30, 2012 and generated a positive cash flow from operating activities of $14.7 million for the year ended September 30, 2012. The Company used $13.1 million in financing activities, $70,274 in investing activities and had a stockholder's deficit of $13.3 million, which was primarily comprised of an accumulated deficit of $301.4 million, partially offset by an increase in additional paid-in-capital to $288.4 million at September 30, 2012.

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

Following the disposition of KES, ALJ believes that its cash resources will be adequate to fund its operations through June 30, 2014. However, to the extent that the Company's estimates are inaccurate or

its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

The Company plans to use its cash resources for future acquisitions or investments in other companies and businesses or for other strategic options. However, the Company is not required to make any such acquisitions, and at this time no agreements, understandings or commitments as to any specific acquisition have been made. Further, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or the issuance of equity securities.

Operating Activities

During the nine months ended June 30, 2013, the Company used $9.9 million from operating activities, primarily attributable to a gain on the sale of KES of $76.8 million and a gain on the sale of minority interest of $10.0 million, partially offset by net income of $66.4 million and minority interest of $13.0 million.

Investing Activities

For the nine months ended June 30, 2013, the Company received cash from investing activities of $85.1 million, primarily from $112.5 million in cash from the sale of KES, partially offset by a $27.8 million investment in short term investments.

Financing Activities

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

Principal Commitments

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

Off-Balance Sheet Arrangements

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

ITEM 5. LEGAL PROCEEDINGS

None.

ITEM 6. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 7. OTHER INFORMATION

None.

RISK FACTORS

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

Risks Related to Our Existing Business

We are a company with minimal to no operations and a relatively large cash balance.

We have approximately $27.9 million of cash and short term investments on hand and we currently have no operations. We will continue to incur ongoing expenses for employee salaries and certain other expenses while we look to find another business to acquire, but will have no operations to produce cash. We cannot assure you how much of our current cash balance, if any, will ultimately be available for future acquisitions.

Our limited cash resources could materially adversely affect our ability to execute our business strategy.

We have approximately $27.9 million of cash and short term investments on hand, and we currently have no operations with which to generate additional cash. Demands on our limited cash resources could have a material effect on our ability to execute our business strategy. Specifically, our ability to make acquisitions may be limited because competing bidders for target entities may have greater financial resources at their disposal, and we may be unable to make more than one acquisition given our limited cash resources.

Our net operating loss carryforwards could be substantially limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code or do not timely acquire another business that generates taxable income.

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

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

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders or equity financings or other equity issuances in connection with future acquisitions, our ability to use our NOLs and to recognize

certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We had approximately $176 million of (pre-tax) NOLs as of June 30, 2013. The NOLs do not begin to expire until 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

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

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

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

Additionally, our ability to utilize our NOLs to offset future tax liabilities may be limited if we do not timely acquire another business which generates taxable income. For example, if it takes us substantially more than one year to acquire another business, we may be treated as having liquidated for U.S. federal income tax purposes, which could prevent us from being able to use our NOLs to offset future income of the new business.

Our internal controls and procedures may be deficient.

Our internal controls and procedures may be subject to deficiencies or weaknesses. Any failure of our internal controls or procedures could harm our operating results or cause us to fail to meet our obligation to maintain adequate public information.

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

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

We may encounter difficulties in acquiring other companies.

We currently plan to use our cash for future acquisitions or investments in other companies and businesses or for other strategic options. However, even if we identify suitable candidates, we may not be able to make investments or acquisitions on commercially acceptable terms. Acquisitions may require substantial time and resources and make it difficult to maintain our standards, controls and procedures. We may not be able to retain key employees of the acquired companies or maintain good relations with their clients or suppliers. We may be required to incur debt and to issue equity securities to effect and/or fund acquisitions, which may be dilutive to existing stockholders or impair our ability to utilize our NOLs.

We cannot assure you that any business acquisitions we make will be successful.

We cannot assure you that any completed acquisition will be successful and that our investments will yield a favorable return. Our management may not have experience in the industry in which we decide to invest. Until we select a particular industry or business in which to complete an acquisition, there is no current basis for you to ascertain the merits or risks of the industry or business in which we may ultimately operate. Although we will evaluate the risks inherent in a particular target business, we cannot assure you that all of

the significant risks present in that target business will be properly assessed. Even if we properly assess those risks, some of them may be outside of our control. Further, we anticipate that acquisitions would be made largely or completely with cash, meaning a substantial portion of our available cash could be used to consummate the acquisitions or we could incur or assume significant amounts of indebtedness. We also may experience significant financial, managerial and operational challenges in the integration of acquired businesses. Also, we are required to account for acquisitions under the purchase method, which would likely result in our recording significant amounts of goodwill or other tangible and intangible assets. The inability of a subsidiary to sustain profitability may result in an impairment loss in the value of long-lived assets, principally goodwill and other tangible and intangible assets, which would adversely affect our financial statements.

We are dependent upon our officers and directors and their loss could adversely affect our ability to operate.

Our operations are dependent upon our officers and directors. We believe that our success depends on the continued service of our officers and directors, at least until we have consummated an acquisition. In addition, our officers and directors are not required to commit any specified amount of time to our affairs and, accordingly, will have conflicts of interest in allocating management time among various business activities, including identifying potential acquisition opportunities and monitoring the related due diligence. The unexpected loss of the services of one or more of our directors or officers could have a detrimental effect on us.

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

In connection with the Merger and Tender Offer, we have decided to postpone any relisting of our stock on a national exchange until such time when we have substantial operations and we determine that the cost of a listing is warranted and beneficial to our stockholders. Even if we were to determine to pursue a listing, we cannot assure you that we would be able to meet the initial listing standards, including the minimum per share price and minimum capitalization requirements, or that we would be able to maintain a listing of our common stock on a national exchange or any other trading venue. Until such time as we determine to list and qualify for listing on NASDAQ, the American Stock Exchange or another trading venue, our common stock will continue to be quoted on the Pink Sheets, which may make it more difficult for an investor to dispose of shares or obtain accurate quotations as to the market value of our common stock.

We may not be able to identify suitable acquisition targets at prices we consider appropriate.

We intend to invest in or acquire control of one or more operating businesses through merger, capital stock exchange, stock purchase, asset acquisition or other similar investment. However, we are not obligated to do so, and at this time no agreements, understandings or commitments as to any specific acquisition have been made. There can be no assurances that we will be able to identify suitable acquisition targets. If we do identify an appropriate acquisition target, we may not be able to successfully and satisfactorily negotiate the terms of the acquisition, including a price that we consider acceptable.

Because of our structure, other companies may have a competitive advantage and we may not be able to consummate an attractive acquisition.

In pursuing our acquisition strategy, we expect to encounter competition from entities having a business objective similar to ours, including venture capital funds, leveraged buyout funds and operating businesses. Many of these entities are well established and have extensive experience in identifying and effecting acquisitions directly or through affiliates. Many of these competitors possess greater technical, human and other resources than we do and our financial resources will be relatively limited when contrasted with those of many of these competitors. While we believe that there are potential acquisition targets that we could acquire with our current cash resources, our ability to compete in acquiring certain sizable acquisition targets will be limited by our available financial resources. This inherent competitive limitation gives others an advantage in pursuing the acquisition of certain target businesses. In addition, we are limited in our ability to issue common stock due to limitations arising from maintaining our NOLs, and such limitations

may impede our ability to structure any acquisition. Any of the foregoing may place us at a competitive disadvantage in successfully negotiating any acquisition.

Subsequent to any acquisition, we may be required to take or incur write-downs or write-offs, restructuring and impairment or other charges or expenditures that could have a significant negative effect on our financial condition, results of operations and our stock price, which could cause you to lose some or all of your investment.

Even if we conduct extensive due diligence on an acquisition target that we acquire, we cannot assure you that this diligence will surface all material issues that may be present inside a particular acquisition target, that it would be possible to uncover all material issues through a customary amount of due diligence, or that factors outside of the acquisition target and outside of our control will not later arise. As a result of these factors, we may be forced to later write-down or write-off assets, restructure our operations, or incur impairment or other charges or expenditures that could result in our reporting losses. Even if our due diligence successfully identifies certain risks, unexpected risks may arise and previously known risks may materialize in a manner not consistent with our preliminary risk analysis. Even if these charges are non-cash items and do not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our securities. In addition, charges of this nature may cause us to violate net worth or other covenants to which we may be subject as a result of assuming pre-existing debt held by an acquisition target or by virtue of our obtaining financing in connection with any such acquisition. Further, unexpected expenses could have a serious impact on our liquidity.

A significant portion of our cash could be expended in pursuing acquisitions that are not consummated.

It is anticipated that the investigation of each specific acquisition target and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial time and attention and substantial costs for accountants, attorneys and others. In addition, we may opt to make down payments or pay exclusivity or similar fees in connection with structuring and negotiating an acquisition. If a decision is made not to complete a specific acquisition, the costs incurred up to that point in connection with the abandoned transaction, potentially including down payments or exclusivity or similar fees, will not be recoverable. Furthermore, even if an agreement is reached relating to a specific acquisition target, we may fail to consummate the transaction for any number of reasons including those beyond our control. Any such event will result in a loss to us of the related costs incurred, which could materially and adversely affect our subsequent attempts to locate and combine with another business.

We may be unable to obtain equity or debt financing, if required, to complete an acquisition or to fund the operations and growth of an acquisition target.

We may be required to seek additional financing through the issuance of equity or debt securities or other financing arrangements to complete an acquisition or under an employee incentive plan after consummation of an acquisition. We cannot assure you that such financing will be available on acceptable terms, if at all. We are limited in our ability to issue common stock due to limitations arising from maintaining our NOLs, and such limitations may impede our ability to structure any equity financing. To the extent that financing proves to be unavailable when needed to consummate a particular acquisition, we may be compelled to restructure or abandon that particular acquisition and seek alternative acquisition targets. The presence of a financing contingency will make us less competitive in relation to other bidders in a particular transaction. In addition, if we complete an acquisition, we may require additional financing to fund the operations or growth of the acquisition target. The failure to secure additional financing could have a material adverse effect on the continued development or growth of our combined business or businesses.

We may only be able to complete one acquisition with our existing cash resources, which will cause us to be solely dependent on a single business which may have a limited number of products or services.

It is likely we will only be able to complete an acquisition of a single target business given our limited cash resources and need to rely on substantial leverage. By consummating an acquisition with only a single entity, our lack of diversification may subject us to numerous economic, competitive and regulatory risks. Further, we would not be able to diversify our operations or benefit from the possible spreading of risks or offsetting of losses, unlike other entities which may have the resources to complete several acquisitions in different industries or different areas of a single industry. Accordingly, the prospects for our success may be solely dependent upon the performance of a single business, or dependent upon the development or market acceptance of a single or limited number of products, processes or services.

This lack of diversification may subject us to numerous economic, competitive and regulatory risks, any or all of which may have a substantial adverse impact upon the particular industry in which we may operate subsequent to our initial acquisition.

Alternatively, if we acquire more than one business, we could also face additional risks, including additional burdens and costs with respect to possible multiple negotiations and due diligence investigations (if there are multiple sellers) and the additional risks associated with the subsequent assimilation of the operations and services or products of the acquired companies. If we are unable to adequately address these risks, it could negatively impact our profitability and results of operations.

Since we have not yet selected a particular industry or acquisition target, we are unable to currently ascertain the merits or risks of the industry or business in which we may ultimately operate.

We may acquire a company in any industry we choose and are not limited to any particular industry or type of business. Accordingly, there is no current basis for you to evaluate the possible merits or risks of the particular industry in which we may ultimately operate or the target business which we may ultimately acquire. To the extent we complete an acquisition with a financially unstable company or an entity in its development stage, we may be affected by numerous risks inherent in the business operations of those entities. If we complete an acquisition with an entity in an industry characterized by a high level of risk, we may be affected by the currently unascertainable risks of that industry. Although our management will endeavor to evaluate the risks inherent in a particular industry or target business, we may not properly ascertain or assess all of the significant risk factors.

The officers and directors of an acquisition target may resign upon consummation of an acquisition. The loss of an acquisition target's key personnel could negatively impact the operations and profitability of the target after the acquisition.

The role of an acquisition target's key personnel upon the consummation of an acquisition cannot be ascertained at this time. Although we contemplate that certain members of an acquisition target's management team will remain associated with the acquisition target following an acquisition, it is possible that members of the management of an acquisition target will not wish to remain in place.

Our management has significant discretion in determining how to use our cash.

Our management has significant discretion in determining how to use our cash. Our management may decide to invest in or acquire any business in any industry. You may not have a vote on any of our investment or strategic decisions, and you may disagree with our management's investment or strategic decisions. We cannot predict whether our investments or strategic initiatives will yield a favorable return, or even preserve our initial investment.

We will be exposed to fluctuations in the value of our investment portfolio.

We cannot predict whether our investments will yield a favorable return, or even preserve principal. Our management has broad discretion in the investment of our cash, and stockholders will be relying on the judgment of our management regarding such investments.

Any significant decline in the market value of our cash, cash equivalents and marketable securities could materially adversely affect our financial condition and operating results. Credit ratings and pricing of investment securities can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, the value and liquidity of our cash, cash equivalents and marketable securities could decline and result in a significant impairment, which could materially adversely affect our financial condition and operating results.

We may issue additional common or preferred shares to complete an acquisition or under an employee incentive plan after consummation of an acquisition, which would dilute the interest of our stockholders and likely present other risks.

We may issue a substantial number of additional shares of common or preferred stock in connection with an acquisition or under an employee incentive plan after consummation of an acquisition. The issuance of additional shares of common or preferred stock:

- may significantly dilute the equity interest of holders of common stock;
- may subordinate the rights of holders of common stock if preferred stock is issued with rights senior to those afforded our common stock;
- could cause a change in control if a substantial number of common stock is issued, which may affect, among other things, our ability to use our NOLs, if any, and could result in the resignation or removal of our present officers and directors; and
- may adversely affect prevailing market prices for our common stock.

We may be required to register as an "investment company" under the Investment Company Act if we fail to acquire another operating business within one year.

We are not engaged in the business of investing, reinvesting or trading in securities, and we do not hold ourselves out as being engaged in those activities. However, under the Investment Company Act of 1940, as amended (the "Investment Company Act"), a company may fall within the scope of being an "inadvertent investment company" if the value of its investment securities (as defined in the Investment Company Act) is more than 40% of its total assets (exclusive of government securities and cash and certain cash equivalents). Our investment securities currently have a value in excess of 40% of the value of our total assets (exclusive of government securities and cash and certain cash equivalents).

There is an exception that gives us a grace period of one year from becoming an inadvertent investment company before we would be required to register as an investment company. This exception allows us one year from the date of becoming an inadvertent investment company to become engaged primarily in businesses other than investing, reinvesting, owning, holding or trading in securities.

In order to cease being an inadvertent investment company, we intend to acquire one or more operating businesses, or at least controlling interests in one or more operating businesses, so that our principal business will be other than that of investing, reinvesting, owning, holding or trading in securities. There can be no assurance that we will be able to complete such acquisitions by the applicable deadline.

In the event that we are required to register as an investment company under the Investment Company Act, we would be forced to comply with substantive requirements including limitations on our ability to borrow, limitations on our capital structure, limitations on the issuance of debt and equity securities, restrictions on acquisitions of interests in partner companies, prohibitions on transactions with affiliates, prohibitions on the issuance of options and other limitations on our ability to compensate key employees, certain governance requirements, restrictions on specific investments and reporting and record-keeping, voting and proxy disclosure requirements. In the event that we are deemed to be an investment company subject to

registration as such under the Investment Company Act, compliance costs and burdens upon ALJ may increase and the additional requirements may adversely affect our business, results of operations or financial condition.

The Tender Offer reduced our "public float," which may result in lower stock prices or reduced liquidity in the trading market for our shares in the future.

Our purchase of shares pursuant to the Tender Offer reduced the number of shares of common stock that would otherwise be traded publicly. This may reduce the volume of trading in our shares of common stock and may result in lower stock prices and reduced liquidity in the trading of our shares of common stock.

Risks Related to our Common Stock

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

Our common stock is currently quoted on the "Pink Sheets" under the symbol "ALJJ.PK." There is currently only a limited market for our common stock, and we can provide no assurance to investors that a more robust market will develop. If a broader market for our common stock does not develop, our stockholders may encounter difficulties selling their common stock from time to time. We do not have the ability to uplist our stock on NASDAQ, the NYSE or the AMEX exchanges because we do not meet the qualifications for listing on those exchanges at this time.

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

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

Volatility in the market price of our common stock.

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

- our quarterly operating results;
- changes in general conditions in the economy or the financial markets; and
- announcements by us of significant acquisitions.

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

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

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

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

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

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

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

ITEM 8. EXHIBITS

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

EXHIBITS

Exhibit No.	Description
1	First Amendment to Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 1, 2010 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2010 available at www.pinksheets.com).
2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2009 available at www.pinksheets.com).
3	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006 (incorporated by reference to Exhibit 2 to the Company's Annual Report available at www.pinksheets.com posted on January 15, 2007).
4	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com).
5	Rights Agreement dated May 13, 2009 by and between ALJ Regional Holdings, Inc. and American Stock Transfer and Trust Company, LLC (incorporated by reference to Annex B to ALJ Regional Holdings proxy statement dated May 15, 2009 available at www.pinksheets.com).
6	Agreement and Plan of Merger dated November 18, 2012 by and among KES Acquisition Company, ALJ Regional Holdings, Inc., Optima Specialty Steel, Inc. and KES Optima Acquisition Inc. (incorporated by reference to Exhibit 1 to the Company's Current Report dated November 18, 2012 available at www.pinksheets.com).

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

Certification of the Chief Executive Officer

I, Jess Ravich, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended June 30, 2013;

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

3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended June 30, 2013.

Date: August 15, 2013

/S/ Jess Ravich
Jess Ravich,
Executive Chairman

Certification of the Chief Financial Officer

I, T. Robert Christ, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended June 30, 2013;

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

3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended June 30, 2013.

Date: August 15, 2013

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