#### ALJ REGIONAL HOLDINGS, INC.

244 Madison Avenue PMB #358 New York, New York 10016

(212) 883-0083

Quarterly Report for the Period Ended June 30, 2014

#### ALJ REGIONAL HOLDINGS, INC.

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report for the Period Ended June 30, 2014 (the "Report") regarding future financial performance, results and conditions and other statements that are not historical facts, including, among others, statements regarding demand for the services offered by each of Faneuil, Inc. ("Faneuil") and Floors N More, LLC, dba Carpets N More ("Carpets"), the ability of Faneuil and Carpets to generate additional sales, manage their expenses and expand their respective businesses,, the effect of any legal proceedings, the ability of the Company's stockholder rights plan to protect its net operating losses, the Company not paying cash dividends in the foreseeable future, the Company's ability to continue to fund its operations and service its indebtedness, the adequacy of the Company's accrual for tax liabilities, management's projection of continued taxable income, and the Company's ability to offset future income against net operating loss carryovers, constitute forward-looking statements. The words "can," "could," "may," "will," "would," "plan," "future," "believes," "intends," "expects," "anticipates," "estimates," and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. Actual results or events could differ materially from those set forth or implied by such forward-looking statements and related assumptions due to certain important factors, including, without limitation, the risks set forth under the caption "Risk Factors" below, which are incorporated herein by reference. The Company is also subject to general business risks, including its success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, adverse state, federal or foreign legislation and regulation, changes in general economic factors, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters. Any forward-looking statements included in this Report are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any forward-looking statements.

#### TABLE OF CONTENTS

<u>Page</u>
ITEM 1. EXACT NAME OF THE ISSUER AND THE ADDRESS OF ITS PRINCIPAL EXECUTIVE OFFICES
ITEM 2. SHARES OUTSTANDING
ITEM 3. INTERIM FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)5
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)7
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED) NINE MONTHS ENDED JUNE 30, 2014
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)9
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2014
ITEM 4. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION25
ITEM 5. LEGAL PROCEEDINGS34
ITEM 6. DEFAULTS UPON SENIOR SECURITIES
ITEM 7. OTHER INFORMATION
ITEM 8. EXHIBITS44
ITEM 9. CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

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

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

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

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

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

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

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

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

#### ITEM 2. SHARES OUTSTANDING

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

		Common Stock Period End Date			Preferred Stock Period End Date	
	June 30, 2014	September 30, 2013	September 30, 2012	June 30, 2014	September 30, 2013	September 30, 2012
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	31,144,913	26,744,913	57,246,598	0	0	0

As of June 30, 2014, there were 201 holders of record of the Company's common stock.

#### ITEM 3. INTERIM FINANCIAL STATEMENTS

#### EXPLANATORY NOTE

As described in more detail under Note 3 below, on October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil from Harland Clarke Holdings Corp., a wholly owned subsidiary of MacAndrews & Forbes Holdings Inc. ("Harland Clarke"), pursuant to a stock purchase agreement, dated October 18, 2013, by and among ALJ, Anna Van Buren, Faneuil's Chief Executive Officer, as an individual purchaser, and Harland Clarke. Faneuil is a leading provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries. Therefore, the interim financial statements set forth below reflect the operations of ALJ for the period of October 1, 2013 through October 18, 2013 and the consolidated operations of ALJ and Faneuil for the period of October 19, 2013 through June 30, 2014.

Effective April 1, 2014, as further described in Note 4 below, ALJ acquired all of the equity interests of Floors-N-More, LLC, dba, Carpets N' More ("Carpets"). Carpets is one of the largest floor covering retailers in Las Vegas and a provider of multiple products for the commercial, retail and home builder markets including all types of flooring, countertops, cabinets, window coverings and garage/closet organizers, with five retail locations, as well as a stone and solid surface fabrication facility. ALJ included the results of operations of Carpets for the period of April 1, 2014 through June 30, 2014 in its consolidated financial statements.

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

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

	June 30, 2014	Se	ptember 30, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 13,708,430	\$	27,825,326
Accounts receivable, less allowance for doubtful accounts of \$713,553 at June 30, 2014 and \$0 at September 30, 2013	23,917,896		-
Inventory	2,686,233		-
Prepaid expenses and other current assets	6,064,384		129,492
Deferred taxes	932,000		-
Total current assets	\$ 47,308,934	\$	27,954,818
Property, plant and equipment	20,009,724		-
Less accumulated depreciation and amortization	(10,586,634)		-
Property, plant and equipment, net	9,423,090		-
Other assets:			
Goodwill	15,974,703		-
Intangible Assets	17,353,286		-
Other Assets	277,791		-
Investment in Bellator	102,077		102,077
Total other assets	33,707,857		102,077
Total assets	\$ 90,439,881		\$ 28,056,895

(continued)

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

#### (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY   Current liabilities:		 June 30, 2014	Septemb 201	
Current liabilities:           Accounts payable         \$ 4,351,753         \$ -           Accrued expenses         9,170,426         -           Income taxes payable         705,025         -           Current portion of notes payable         4,148,622         -           Current portion of deferred revenue         4,098,921         -           Current portion of capital lease obligations         139,504         -           Customer deposits         1,014,704         -           Other liabilities         124,724         -           Liabilities related to discontinued operations         298,466         298,466           Total current liabilities:         298,466         298,466           Non-current liabilities:         1,659,589         -           Workman's compensation reserve         1,659,589         -           Uncarned revenue         140,690         -           Notes payable, less current portion         20,510,197         -           Deferred revenue, less current portion         708,386         -           Deferred tax liability         114,000         -           Other Liabilities         368,901         -           Non-controlling interest         1,410,134         - <tr< th=""><th>LIABILITIES AND STOCKHOLDERS' EQUITY</th><th></th><th></th><th></th></tr<>	LIABILITIES AND STOCKHOLDERS' EQUITY			
Accrued expenses   9,170,426   - 1				
Income taxes payable	Accounts payable	\$ 4,351,753	\$	-
Current portion of notes payable         4,148,622         -           Current portion of deferred revenue         4,098,921         -           Current portion of capital lease obligations         139,504         -           Customer deposits         1,014,704         -           Other liabilities         124,724         -           Liabilities related to discontinued operations         298,466         298,466           Total current liabilities         -         -           Workman's compensation reserve         1,659,589         -           Uncarned revenue         140,690         -           Notes payable, less current portion         20,510,197         -           Deferred revenue, less current portion         708,386         -           Deferred revenue, less current portion         70,836         -           Other Liabilities         368,901         -           Non-controlling interest         1,410,134         -           Total liabilities         \$48,964,042         \$298,466           Commitments and contingencies         -         -           Stockholders' equity (deficiency):         -         -           Common stock, \$0.01 par value; authorized - 100,000,000         311,612         267,612 <td< td=""><td>Accrued expenses</td><td>9,170,426</td><td></td><td>-</td></td<>	Accrued expenses	9,170,426		-
Current portion of deferred revenue         4,098,921         -           Current portion of capital lease obligations         139,504         -           Customer deposits         1,014,704         -           Other liabilities         124,724         -           Liabilities related to discontinued operations         298,466         298,466           Total current liabilities         ***24,052,145*         \$ 298,466           Non-current liabilities         *****         *****           Workman's compensation reserve         1,659,589         -           Uncarrend revenue         140,690         -           Notes payable, less current portion         20,510,197         -           Deferred revenue, less current portion         708,386         -           Deferred tax liability         114,000         -           Other Liabilities         368,901         -           Non-controlling interest         1,410,134         -           Total liabilities         \$ 48,964,042         \$ 298,466           Commitments and contingencies         ***           Stockholders' equity (deficiency):         ***           Common stock, \$0.01 par value; authorized - 100,000,000         311,612         267,612           shares; 31,144,913 issued and out	Income taxes payable	705,025		-
Current portion of capital lease obligations         139,504         -           Customer deposits         1,014,704         -           Other liabilities         124,724         -           Liabilities related to discontinued operations         298,466         298,466           Total current liabilities         \$24,052,145         \$298,466           Non-current liabilities:           Workman's compensation reserve         1,659,589         -           Unearned revenue         140,690         -           Notes payable, less current portion         20,510,197         -           Deferred revenue, less current portion         20,510,197         -           Deferred tax liability         114,000         -           Other Liabilities         368,901         -           Non-controlling interest         1,410,134         -           Total liabilities         \$48,964,042         \$298,466           Commitments and contingencies           Stockholders' equity (deficiency):           Commitments and contingencies         -           Stockholders' equity (deficiency):           Common stock, \$0.01 par value; authorized - 100,000,000         311,612         267,612           shares; 31,144,913 issued and outstand	Current portion of notes payable	4,148,622		-
Customer deposits         1,014,704           Other liabilities         124,724         -           Liabilities related to discontinued operations         298,466         298,466           Total current liabilities         \$24,052,145         \$298,466           Non-current liabilities:         \$24,052,145         \$298,466           Non-current liabilities:         \$24,052,145         \$298,466           Non-current liabilities:         \$20,510,197         -           Uncarned revenue         140,690         -           Notes payable, less current portion         708,386         -           Deferred tax liability         114,000         -           Other Liabilities         368,901         -           Non-controlling interest         1,410,134         -           Total liabilities         \$48,964,042         \$298,466           Commitments and contingencies           Stockholders' equity (deficiency):           Commitments and contingencies           Stockholders' equity (deficiency):           Common stock, \$0.01 par value; authorized - 100,000,000         311,612         267,612           shares; 31,144,913 issued and outstanding at June 30, 2014         30,2014         30,2014           and 26,744,913 issued and	Current portion of deferred revenue	4,098,921		-
Other liabilities         124,724         -           Liabilities related to discontinued operations         298,466         298,466           Total current liabilities         \$24,052,145         \$298,466           Non-current liabilities:         \$24,052,145         \$298,466           Non-current liabilities:         \$20,510,197         -           Unearned revenue         140,690         -           Notes payable, less current portion         708,386         -           Deferred revenue, less current portion         708,386         -           Deferred tax liability         114,000         -           Other Liabilities         368,901         -           Non-controlling interest         1,410,134         -           Total liabilities         \$48,964,042         \$298,466           Commitments and contingencies           Stockholders' equity (deficiency):           Common stock, \$0.01 par value; authorized - 100,000,000         311,612         267,612           shares; 31,144,913 issued and outstanding at June 30, 2014         31,442,913 issued and outstanding at September 30, 2013         2013           Additional paid-in capital         267,642,306         262,755,790           Accumulated deficit         (26,4449,052)         (235,235,946)	Current portion of capital lease obligations	139,504		-
Liabilities related to discontinued operations         298,466         298,466           Total current liabilities         \$ 24,052,145         \$ 298,466           Non-current liabilities:           Workman's compensation reserve         1,659,589         -           Unearned revenue         140,690         -           Notes payable, less current portion         20,510,197         -           Deferred tax liability         114,000         -           Deferred tax liabilities         368,901         -           Other Liabilities         368,901         -           Non-controlling interest         1,410,134         -           Total liabilities         \$ 48,964,042         \$ 298,466           Commitments and contingencies           Stockholders' equity (deficiency):           Common stock, \$0.01 par value; authorized - 100,000,000         311,612         267,612           shares; 31,144,913 issued and outstanding at June 30, 2014         31,444,913         267,612           Additional paid-in capital         267,642,306         262,755,790           Accumulated deficit         (226,449,052)         (235,235,946)           Treasury stock - 25,000 shares, at cost         (29,027)         (29,027)           Total stockholders' equity<	Customer deposits	1,014,704		
Total current liabilities         \$ 24,052,145         \$ 298,466           Non-current liabilities:         ***           Workman's compensation reserve         1,659,589         -           Unearned revenue         140,690         -           Notes payable, less current portion         20,510,197         -           Deferred revenue, less current portion         708,386         -           Deferred tax liability         114,000         -           Other Liabilities         368,901         -           Non-controlling interest         1,410,134         -           Total liabilities         \$ 48,964,042         \$ 298,466           Commitments and contingencies           Stockholders' equity (deficiency):           Common stock, \$0.01 par value; authorized - 100,000,000         311,612         267,612           shares; 31,144,913 issued and outstanding at June 30, 2014         30, 2014         30, 2014           and 26,744,913 issued and outstanding at September 30, 2013         2013         267,642,306         262,755,790           Accumulated deficit         (226,449,052)         (235,235,946)         (226,490,52)         (235,235,946)           Treasury stock - 25,000 shares, at cost         (229,027)         (29,027)         70,29,027)	Other liabilities	124,724		-
Non-current liabilities:   Workman's compensation reserve   1,659,589   -     Unearned revenue   140,690   -     Unearned revenue, less current portion   20,510,197   -     Deferred revenue, less current portion   708,386   -     Deferred tax liability   114,000   -     Other Liabilities   368,901   -     Non-controlling interest   1,410,134   -     Total liabilities   \$48,964,042   \$298,466      Commitments and contingencies	Liabilities related to discontinued operations	298,466		298,466
Workman's compensation reserve         1,659,589         -           Unearned revenue         140,690         -           Notes payable, less current portion         20,510,197         -           Deferred revenue, less current portion         708,386         -           Deferred tax liability         114,000         -           Other Liabilities         368,901         -           Non-controlling interest         1,410,134         -           Total liabilities         \$ 48,964,042         \$ 298,466           Stockholders' equity (deficiency):           Commitments and contingencies         Stockholders' equity (deficiency):         267,612           Shares; 31,144,913 issued and outstanding at June 30, 2014 and 26,744,913 issued and outstanding at September 30, 2013         311,612         267,612           Additional paid-in capital         267,642,306         262,755,790           Accumulated deficit         (226,449,052)         (235,235,946)           Treasury stock – 25,000 shares, at cost         (29,027)         (29,027)           Total stockholders' equity         41,475,839         27,758,429	Total current liabilities	\$ 24,052,145	\$	3 298,466
Stockholders' equity (deficiency):         Common stock, \$0.01 par value; authorized - 100,000,000       311,612       267,612         shares; 31,144,913 issued and outstanding at June 30, 2014       31,000       30,000         and 26,744,913 issued and outstanding at September 30, 2013       267,642,306       262,755,790         Additional paid-in capital       267,642,306       262,755,790         Accumulated deficit       (226,449,052)       (235,235,946)         Treasury stock - 25,000 shares, at cost       (29,027)       (29,027)         Total stockholders' equity       41,475,839       27,758,429	Workman's compensation reserve Unearned revenue Notes payable, less current portion Deferred revenue, less current portion Deferred tax liability Other Liabilities Non-controlling interest	140,690 20,510,197 708,386 114,000 368,901 1,410,134		\$ 298,466
Common stock, \$0.01 par value; authorized - 100,000,000       311,612       267,612         shares; 31,144,913 issued and outstanding at June 30, 2014       311,612       267,612         and 26,744,913 issued and outstanding at September 30, 2013       2013       267,642,306       262,755,790         Accumulated deficit       (226,449,052)       (235,235,946)         Treasury stock - 25,000 shares, at cost       (29,027)       (29,027)         Total stockholders' equity       41,475,839       27,758,429	Ü			
Additional paid-in capital       267,642,306       262,755,790         Accumulated deficit       (226,449,052)       (235,235,946)         Treasury stock – 25,000 shares, at cost       (29,027)       (29,027)         Total stockholders' equity       41,475,839       27,758,429	Common stock, \$0.01 par value; authorized - 100,000,000 shares; 31,144,913 issued and outstanding at June 30, 2014 and 26,744,913 issued and outstanding at September 30,	311,612		267,612
Accumulated deficit       (226,449,052)       (235,235,946)         Treasury stock – 25,000 shares, at cost       (29,027)       (29,027)         Total stockholders' equity       41,475,839       27,758,429		267.642.306	2	262,755,790
Treasury stock - 25,000 shares, at cost       (29,027)       (29,027)         Total stockholders' equity       41,475,839       27,758,429	1 1			
Total stockholders' equity 41,475,839 27,758,429			(2	
		. , ,		. , ,
		\$ , ,	\$	, ,

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,		
	2014	2013	2014	2013	
NET REVENUE	\$ 43,324,978	\$ -	\$ 105,566,565	\$ -	
COSTS AND EXPENSES					
Cost of revenue	32,978,587	_	81,127,810	_	
Selling, general and administrative	5,752,094	107,904	13,699,077	457,122	
Total cost of operations	38,730,681	107,904	94,826,887	457,122	
Income (loss) from operations	4,594,297	(107,904)	10,739,678	(457,122)	
OTHER INCOME (EXPENSE)					
Interest and dividend income	3,252	240,245	14,484	451,289	
Interest and dividend income		240,243		431,209	
	(372,276)	-	(952,100)	76.006.001	
Gain on sale of KES	-	-	-	76,806,891	
Gain on settlement of Minority Interest	-	-	-	10,029,058	
Total other income (expense)	(369,024)	132,341	(937,616)	87,287,238	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, DISCONTINUED OPERATIONS AND MINORITY INTEREST	4,225,273	132,341	9,802,062	86,830,116	
INCOME TAXES ON CONTINUING OPERATIONS	(261,019)	-	(705,026)	(7,240,430)	
INCOME BEFORE DISCONTINUED OPERATIONS AND MINORITY INTEREST	3,964,254	132,341	9,097,036	79,589,686	
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	-	-	-	(159,164)	
INCOME TAXES ON DISCONTINUED OPERATIONS	-	-	-	-	
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAXES	-	-	-	(159,164)	
INCOME BEFORE MINORITY INTEREST	3,964,254	132,341	9,097,036	79,430,522	
NON-CONTROLLING INTEREST	(126,892)	-	(310,142)	(12,992,109)	
NET INCOME	3,837,362	132,341	8,786,894	66,438,413	
NET INCOME	3,837,302	132,341	0,700,094	00,436,413	
NET INCOME (LOSS) PER COMMON SHARE -					
Basic	\$0.13	\$0.00	\$0.30	\$1.57	
Dilutive	\$0.11	\$0.00	\$0.27	\$1.49	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	30,444,913	27,057,648	28,244,913	41,957,648	
Dilutive	33,832,413	29,257,648	32,328,247	44,257,648	

See accompanying notes to condensed consolidated financial statements.

# ALJ REGIONAL HOLDINGS, INC. CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED) NINE MONTHS ENDED JUNE 30, 2014

	Commo	on Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
			Сарітаі	Deficit	Stock	10181
	Shares	Amount				
Balances at September 30, 2013	26,744,913	\$ 267,612	\$ 262,755,790	\$ (235,235,946)	\$ (29,027)	\$27,758,429
Issuance of ALJ stock for the purchase of Faneuil	3,000,000	30,000	2,460,000			2,490,000
Issuance of ALJ stock for the purchase of Carpets	1,400,000	14,000	2,226,000			2,240,000
Share-based compensation:						
Issuance of options			200,516			200,516
Net income				8,786,894		8,786,894
Balances at June 30, 2014	31,144,913	\$ 311,612	\$ 267,642,306	\$ (226,449,052)	\$ (29,027)	\$41,475,839

See accompanying notes to condensed consolidated financial statements.

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

Nine Months Ended June 30,

	Ju	ne 30,
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 8,786,894	\$ 66,438,413
Adjustments to reconcile net income to net cash provided by (used in)	\$ 0,700,05	00,120,112
operating activities:		
Depreciation and amortization	2,013,581	
Stock-based compensation	200,516	
Gain on the sale of KES		(76,806,891
Provision for bad debts	(624,888)	
Gain on the sale of non-controlling interest in KES	-	(10,029,058
Comprehensive loss	-	(143,032
Income from discontinued operations	-	(159,164
Non-controlling interest – related parties	310,134	12,977,301
Changes in operating assets and liabilities:		
(Increase) decrease in -		
Accounts receivable, net	(3,647,778)	
Dividends receivable		(47,919
Net deferred taxes		5,881,853
Inventories	(1,360,941)	-
Other assets	(45,917)	
Prepaid expenses and other receivables	211,033	62,489
Increase (decrease) in -		
Accounts payable	377,646	
Accrued expenses	2,626,801	
Workman's compensation reserve	394,785	•
Deferred revenue	363,333	
Unearned revenue	(224,766)	
Customer deposits	384,925	
Other liabilities	110,885	
Capital lease obligations	(263,448)	
Income taxes payable	705,025	(50,485
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	10,317,820	(9,913,375
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Faneuil	(10.001.201)	
	(19,091,201) (5,254,104)	
Purchase of Carpets Purchase of equipment	(2,669,353)	•
Cash received from the sale of KES	(2,009,333)	112,500,000
Cash received from 8% loans payable from KES		267,622
Cash received from sale of ALJ's of Series B Common Stock in KES		126,845
Purchase of short term investments		(20,231,865
Investment in Bellator		(11,849
NET CASH USED IN INVESTING ACTIVITIES	(27,014,658)	92,650,753
TELEVISION OF THE PROPERTY OF	(27,011,000)	>2,000,700
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of stock options	-	46,000
Proceeds from the sale of ALJ Stock	2,240,000	.,
Proceeds from the sale of non-controlling interest in Faneuil	1,100,000	
Repayments on term loans	(2,760,058)	(4,000,000
Proceeds from issuance of Promissory Notes	2,000,000	
Net repayments under secured line of credit	-	(7,167,015
Repayment of 13% Preferred Stock	-	(11,803,750
Purchase and retirement of Common Stock	-	(9,161
Repayments on 8% term loans	-	(19,265,835
Payment for non-controlling interest in KES	-	(10,480,919
Purchase and retirement of common stock	-	(25,200,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,579,942	(77,880,680
NET CASH (USED IN) OPERATING, INVESTING AND FINANCING	(14,116,896)	4,856,698
ACTIVITIES		
CASH AND CASH EQUIVALENTS		
Net (decrease)	(14,116,896)	4,856,698

Balance at beginning of period	27,825,326	2,823,576
Balance at end of period	13,708,430	7,680,274
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	584,513	132,828
Taxes	-	351,698

See accompanying notes to condensed consolidated financial statements.

On October 18, 2013, the Company issued 3,000,000 shares as partial consideration for the purchase of Faneuil.

## ALJ REGIONAL HOLDINGS, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 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 below, on October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil, Inc. (including its subsidiaries, "Faneuil"). Faneuil is a leading provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries. ALJ has included the operations of Faneuil in its consolidated financial statements since October 19, 2013 (see Note 3).

As further described in Note 4 below, effective April 1, 2014, ALJ acquired all of the equity interests of Floors-N-More, LLC, dba, Carpets N' More ("Carpets"). Carpets is one of the largest floor covering retailers in Las Vegas and a provider of multiple products for the commercial, retail and home builder markets including all types of flooring, countertops, cabinets, window coverings and garage/closet organizers, with five retail locations, as well as a stone and solid surface fabrication facility. ALJ included the results of operations of Carpets in its consolidated financial statements for the period April 1, 2014 through June 30, 2014.

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

The accompanying condensed consolidated financial statements are unaudited, but in the opinion of Company management, contain all adjustments, which include normal recurring accruals, necessary to present fairly the financial position at June 30, 2014 and September 30, 2013, the results of operations for the nine months ended June 30, 2014 and 2013, and the cash flows for the nine months ended June 30, 2014 and 2013.

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

#### **Liquidity and Capital Resources**

For the nine months ended June 30, 2014, the Company recognized net income of \$8.8 million, generated positive cash flow from operating activities of \$10.3 million and financing activities of \$2.6 million, partially offset by cash used from investing activities of \$27.0 million, primarily related to the purchase of Faneuil of \$19.1 million and purchase of Carpets of \$5.3 million. The Company had an accumulated deficit of \$226.4 million and stockholder's equity of \$41.5 million at June 30, 2014.

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

As further described in Note 3 below, on October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil from Harland Clarke pursuant to a stock purchase agreement, dated October 18, 2013, by and among ALJ, Anna Van Buren, Faneuil's Chief Executive Officer, as an individual purchaser, and Harland Clarke. ALJ and Ms. Van Buren collectively acquired all of the capital stock of Faneuil from Harland Clarke for aggregate consideration of \$53.0 million, consisting of \$25.0 million in cash, a contribution of \$500,000 in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at \$2.5 million and a seller note for \$25.0 million (the "Harland Clarke Note"). Following the closing of ALJ's acquisition of Faneuil on October 18, 2013, ALJ sold 3,286 shares of Faneuil's common stock to Tarsha Leherr, Faneuil's Vice President of Operations. As a result, ALJ holds substantially all of the capital stock of Faneuil, and Ms. Van Buren and Ms. Leherr hold a non-controlling interest of Faneuil. As of the date of this Report, ALJ, Ms. Van Buren and Ms. Leherr hold, respectively, 883,857 (96.07%), 32,857 (3.57%) and 3,286 (0.36%) shares of Faneuil's common stock, for a total of 920,000 shares of Faneuil's common stock issued and outstanding. The maximum number of shares of common stock that Faneuil is authorized to issue is 1,000,000 shares. ALJ issued Ms. Van Buren an option to purchase 80,000 shares of stock, of which 26,667 is currently vested and the remaining vests evenly on September 18, 2015 and September 18, 2016.

On October 18, 2013, Faneuil also entered into a Loan and Security Agreement by and among Faneuil and its wholly owned subsidiary, Faneuil Toll Operations LLC, as borrowers, and M&T Bank, providing for an asset based \$5,000,000 revolving line of credit (the "M&T Credit Facility"). The revolving loans are subject to customary conditions precedent as well as a borrowing base limitation. In addition to the revolving loans, the M&T Credit Facility also provides for the issuance of letters of credit, which, together with all outstanding revolving loans, are subject to a dollar cap equal to the lesser of the borrowing base and \$5,000,000. The M&T Credit Facility bears interest at a variable rate based on one-month LIBOR. The M&T Credit Facility was undrawn at closing and as of the date of this Report there is nothing drawn on the M&T Credit Facility. The M&T Credit Facility is secured by substantially all of the assets of Faneuil and Faneuil Toll Operations LLC and contains customary representations, warranties and covenants, including a financial covenant requiring the borrowers to maintain a certain debt service coverage ratio. The M&T Credit Facility also contains customary events of default and indemnification obligations of Faneuil and Faneuil Toll Operations LLC.

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

Effective April 1, 2014, ALJ acquired all of the equity interests of Carpets pursuant to a purchase and sale agreement, dated April 14, 2014, by and among ALJ, the seller and Carpets. ALJ paid \$5.25 million, in cash to the seller for all of the equity interests in Carpets. Concurrently with the closing, ALJ invested \$240,000 in Carpets for a total ownership percentage of 100.00% (basic) or 93.19% (fully diluted) and Mr. Chesin, the Chief Executive Officer of Carpets, received an ownership percentage of 0.00% (basic) or 6.81% (fully diluted) of Carpets by way of the issuance of 40,000 Equity Award Units, which vest at 10,000 on each of December 31, 2014, 2015, 2016 and 2017. As discussed in Note 20, Subsequent Events, ALJ issued Mr. Chesin additional units on July 1, 2014.

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, and the incurrence of \$2.0 million in debt from Libra Securities Holdings, LLC, a related party, by issuance of a promissory note (the "Promissory Note"). 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.

ALJ believes that its current cash resources will be adequate to fund its operations through June 30, 2015. However, to the extent the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

#### 2. Nature of Operations and Summary of Significant Accounting Policies

#### **Nature of Operations**

ALJ is a holding company, whose primary assets as of June 30, 2014 were substantially all of the outstanding capital stock of Faneuil and Carpets. ALJ acquired Carpets effective April 1, 2014. As a result the Company has now organized its business and corporate structure along the following two business segments: Faneuil and Carpets.

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 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.

#### Cash and Cash Equivalents

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

#### **Accounts Receivable**

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

Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to the valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

#### **Stock-Based Compensation**

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

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

#### **Inventory**

*Carpets*. Inventory, which consists of carpet, wood, vinyl and tile, is stated at the lower of cost or market. Cost is determined by using the first-in, first-out (FIFO) method of accounting for inventory, and market represents the lower of cost or estimated net realizable value.

#### **Property, Plant and Equipment**

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

Depreciation is provided principally over the following useful lives:

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

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

#### **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 flooring installation on any job, the Company recognizes the related deposit as revenue.

#### **Revenue Recognition**

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, provided 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.

#### **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.

#### **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.

Intangible assets that are deemed to have a finite life are amortized over their estimated useful life generally using straight-line or accelerated methods that are based on expected cash flows.

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

Customer relationships	12.5 years
Internal software	6 years
Trade name	Indefinite

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

Customer relationships	15 years
Non-Compete	6 years
Contract backlog	1 year
Non-compete agreements	3 to 5 years
Trade name	15 years

#### **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 jurisdiction and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2005 to 2013. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

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

#### **Use of Estimates and Assumptions**

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

#### **Concentrations**

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

*Faneuil.* For the nine months ended June 30, 2014, the Company had one customer that accounted for approximately 38.0% of net revenue, of which approximately \$4.1 million was included in accounts receivable at June 30, 2014.

*Carpets.* For the nine months ended June 30, 2014, the Company had 4 customers that accounted for approximately 24.7%, 16.9%, 16.6% and 10.2% of net revenue, of which approximately \$0.9 million, \$1.2 million, \$0.4 million and \$0.6 million were included in accounts receivable at June 30, 2014.

*Carpets.* For the nine months ended June 30, 2014, the Company had 3 suppliers that accounted for approximately 30.5%, 14.2% and 13.3% of inventory purchases, of which approximately \$0.6 million, \$0.3 million and \$0.3 million, respectively, were included in accounts payable at June 30, 2014.

#### **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, 2014 and 2013:

	Three Months Ended June 30,		Nine Months I June 30,	
_	2014	2013	2014	2013
Weighted average shares outstanding, basic	30,444,913	27,057,648	28,244,913	41,957,648
Dilutive effect of: Options to purchase common stock	3,387,500	2,200,000	3,383,334	2,300,000
Weighted average shares outstanding, diluted	33,832,413	29,257,648	32,328,247	44,257,648

#### **Recently Issued or Adopted Accounting Standards**

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

#### 3. Acquisition of Faneuil

On October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil from Harland Clarke pursuant to a stock purchase agreement, dated October 18, 2013, by and among ALJ, Anna Van Buren, Faneuil's Chief Executive Officer, as an individual purchaser, and Harland Clarke. ALJ and Ms. Van Buren collectively acquired all of the capital stock of Faneuil from Harland Clarke for aggregate consideration of \$53.0 million, consisting of \$25.0 million in cash, a contribution of \$500,000 in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at \$2,500,000 and the Harland Clarke Note for \$25.0 million. ALJ acquired 96.43% of Faneuil's outstanding capital stock and the remaining 3.57% was acquired by Ms. Van Buren. Following the closing of ALJ's acquisition of Faneuil on October 18, 2013, ALJ sold 3,286 shares of Faneuil's common stock to Tarsha Leherr, Faneuil's Vice President of Operations. As a result, ALJ holds substantially all of the capital stock of Faneuil, and Ms. Van Buren and Ms. Leherr hold a minority interest of Faneuil. As of the date of this Report, ALJ, Ms. Van Buren and Ms. Leherr hold, respectively, 883,857, 32,857 and 3,286 shares of Faneuil's common stock, for a total of 920,000 shares of Faneuil's common stock issued and outstanding. The maximum number of shares of common stock that Faneuil is authorized to issue is 1,000,000 shares.

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

In connection with the acquisition of Faneuil, ALJ's Board was expanded from five to seven members. Ms. Van Buren was appointed to the Board as a Class III director. In addition, Michael Borofsky, a representative of Harland Clarke, was appointed to the Board as a Class III director.

#### 4. Acquisition of Carpets

Effective April 1, 2014, ALJ acquired all of the equity interests of Carpets pursuant to a purchase and sale agreement, dated April 14, 2014, by and among ALJ, the seller and Carpets. ALJ paid \$5.25 million, in cash to the seller for all of the equity interests in Carpets. Concurrently with the closing, ALJ invested \$240,000 in Carpets for a total ownership percentage of 100.00% (basic) or 93.19% (fully diluted) and Mr. Chesin, the Chief Executive Officer of Carpets, received an ownership percentage of 0.00% (basic) or 6.81% (fully diluted) of Carpets by way of the issuance of 40,000 Equity Award Units, which vest at 10,000 on each of December 31, 2014, 2015, 2016 and 2017. As discussed in Note 20, Subsequent Events, ALJ issued Mr. Chesin additional units on July 1, 2014.

#### 5. Related Party Transactions

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

Also on October 18, 2013, the board of directors of Faneuil granted an option to purchase 60,000 shares of Faneuil's common stock to Ms. Van Buren. Such option vested with respect to one-third of the shares subject to the option on October 18, 2013 and one-half of the remaining unvested shares will vest on each of October 18, 2014 and October 18, 2015, conditioned on Ms. Van Buren's continuous service to Faneuil. Such option accelerates upon a change of control of Faneuil.

On 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 August 27, 2013 the Board granted a fully vested option to purchase 1,000,000 shares of our common stock to Jess Ravich, our Executive Chairman and 175,000 shares of our common stock to Hal Byer, a Director in consideration of their efforts related to the Faneuil acquisition. The exercise price for such option is \$1.00 and expires on October 18, 2020.

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

On March 14, 2014, the Board agreed to increase the compensation of Mr. Ravich from \$60,000 to \$120,000 per year. On July 21, 2014, the Board approved Mr. Ravich receiving his compensation for 2014 in the form of 53,648 shares of stock.

#### 6. Discontinued Operations Unrelated to KES

As of June 30, 2014 and September 30, 2013, the Company maintained an estimated accrual of liabilities associated with discontinued operations other than KES of \$298,000, remaining from its previously discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the previously discontinued businesses.

#### 7. Discontinued Operations Related to KES

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

As a result, KES is now reported as a Discontinued Operation on ALJ's financial statements. KES recognized \$48.0 million in revenue for the nine months ended June 30, 2013 and recognized a loss of \$159,164 during the nine months ended June 30, 2013.

As a result of the sale of KES, ALJ recognized a gain of approximately \$76.8 million, which was partially offset by a reduction of \$13.0 million in Minority Interest and \$5.6 million in the reduction of deferred tax assets.

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

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

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

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

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

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

#### 8. Accounts Receivable

Accounts Receivable at June 30, 2014 and September 30, 2013 consisted of the following:

	June 30, 2014		Septemb 201	
	Unau	dited		
Accounts receivable	\$	23,673,152	\$	-
Unbilled receivables		2,173,766		-
Less: Allowance for doubtful accounts		(1,929,022)		
Total		23.917.896	S	

The Company has included in its allowance for doubtful accounts an accrual for potential service level assessments related to one of its contracts. As of June 30, 2014, the service level assessment accrual was \$637,662. Additionally, the Company has specifically reserved against one receivable in the amount of \$1.3 million. This receivable is related to a former client who filed for bankruptcy and the receivable was acquired through an acquisition. The receivable and reserve will remain on the Company's books until the Company is confident of its collectability.

#### 9. Property, Plant and Equipment

Property, plant and equipment at June 30, 2014 and September 30, 2013 consisted of the following:

	June 30, 2014 Unaudited		tember 30, 2013
Computer and office equipment	\$ 7,273,720	\$	-
Computer software	5,423,674		-
Furniture and fixtures	2,479,559		-
Leasehold improvements	3,177,464		-
Warehouse equipment	208,264		
Construction in progress	1,409,268		-
Automobiles	37,775		
Total	20,009,724		-
Less: Accumulated depreciation and amortization	(10,586,634)		-
	\$ 9,423,090	\$	-

Depreciation expense was \$1,116,854 for the nine months ended June 30, 2014.

#### 10. Intangible Assets

Intangible assets at June 30, 2014 and September 30, 2013 consisted of the following:

		June 30, 2014 Unaudited		mber 30, 2013
Customer relationships	\$	13,580,000	\$	-
Trade name		2,020,000		-
Internal software		580,014		-
Non-compete agreements		1,990,000		
Contract backlog		80,000		-
Total		18,250,014		-
Less: Accumulated amortization	·	(896,728)	<u>,                                      </u>	-
	\$	17,353,286	\$	-

Amortization expense was \$896,728 for the nine months ended June 30, 2014.

#### 11. Goodwill

Goodwill at June 30, 2014 and September 30, 2013 consisted of the following:

	June 30, 2014	Sep	tember 30, 2013
	Unaudited		
Trained and assembled workforce	\$ 11,400,000	\$	-
Residual goodwill	4,574,703		-
Total	\$ 15,974,703	\$	-

#### 12. Business Segment Information

The Company has organized its business along two 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. Management measures and evaluates the reportable segments based on operating income. 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.
- Carpets is one of the largest floor covering retailers in Las Vegas 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.

As discussed in Note 2, the Company made business segment changes effective April 1, 2014. For future reporting periods, the Company will provide business segment information for the results of operations.

	Nine Months End June 30, 2014	ing	Three Months End June 30, 2014	ling
Net Revenue				
Faneuil	97,240,815	92%	34,999,227	81%
Carpets	8,325,750	8%	8,325,750	19%
Consolidated	105,566,565	100%	43,324,977	100%
Cost of revenue			-	
Faneuil	74,825,473	71%	26,676,250	62%
Carpets	6,302,337	6%	6,302,337	15%
Consolidated	81,127,810	77%	32,978,587	76%
Gross Margin			-	
Faneuil	22,415,342	21%	8,322,977	19%
Carpets	2,023,413	2%	2,023,413	5%
Consolidated	24,438,755	23%	10,346,390	24%
Selling, general and administrative			-	
Faneuil	8,883,187	8%	3,068,408	7%
Carpets	1,358,804	1%	1,358,804	3%
Consolidated	10,241,991	10%	4,427,212	10%
Depreciation and amortization	, , , , , , , , , , , , , , , , , , ,			
Faneuil	2,692,025	3%	1,043,777	2%
Carpets	101,238	0%	101,238	0%
Consolidated	2,793,263	3%	1,145,015	3%
Segment operating profit	<i>''</i>			
Faneuil	10,840,130	10%	4,210,792	10%
Carpets	563,371	1%	563,371	1%
Consolidated	11,403,501	11%	4,774,163	11%
Parent company expenses	663,824	1%	179,867	0%
Operating income	10,739,677	10%	4,594,296	11%
Consolidated adjusted EBITDA*	13,733,456	13%	5,775,610	13%
Total assets				
Faneuil	76,454,424			
Carpets	12,014,998			
ALĴ	1,970,459			
Consolidated	90,439,881			
Total liabilities				
Faneuil	39,857,829			
Carpets	4,996,653			
ALJ	4,109,560			
Consolidated	48,964,042			
Consonanca	70,707,072			

<sup>\*</sup> Consolidated adjusted EBITDA means net income plus depreciation and amortization, non-cash stock based compensation, net interest expense, other income (loss), and income tax (expense) benefit

#### 13. Line of Credit

On October 18, 2013, Faneuil entered into a Loan and Security Agreement by and among Faneuil and its wholly owned subsidiary, Faneuil Toll Operations LLC, as borrowers, and M&T Bank, providing for an asset based \$5,000,000 revolving line of credit (the "M&T Credit Facility"). The revolving loans are subject to customary conditions precedent as well as a borrowing base limitation. In addition to the revolving loans, the M&T Credit Facility also provides for the issuance of letters of credit, which, together with all outstanding revolving loans, are subject to a dollar cap equal to the lesser of the borrowing base and \$5,000,000. The M&T Credit Facility bears interest at a variable rate based on one-month LIBOR. The M&T Credit Facility was undrawn at closing and as of the date of this Report there is nothing drawn on the M&T Credit Facility. The M&T Credit Facility is secured by substantially all of the assets of Faneuil and Faneuil Toll Operations LLC and contains customary representations, warranties and covenants, including a financial covenant requiring the borrowers to maintain a certain debt service coverage ratio. The M&T Credit Facility also contains customary events of default and indemnification

obligations of Faneuil and Faneuil Toll Operations LLC. As of June 30, 2014, there were no amounts outstanding under the line of credit.

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

#### 14. Note Payable – Harland Clarke

Faneuil entered into a note payable with Harland Clarke, which provides for a two-year maturity with interest in the first year at five percent (5%) and interest in the second year at seven and one half percent (7.5%). The Harland Clarke Note has mandatory amortization of \$1,000,000 per quarter with an annual cash flow sweep based on a defined free cash calculation. Additionally, Faneuil's obligations under the Harland Clarke Note are secured by a pledge of ALJ's stock of Faneuil and the stock of Faneuil's subsidiaries, subject to certain limitations. As of June 30, 2014, the balance on the note payable was \$22.3 million not including accrued interest of \$287,026.

#### 15. Note Payable – Libra Securities

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, 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.

#### 16. Commitments and Contingencies

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

#### For the twelve months ending:

2015	\$ 2,759,664
2016	2,142,716
2017	1,820,291
2018	1,257,628
Thereafter	724,892
	\$ 8,705,191

During the nine months ended June 30, 2014, rental expense under operating leases was \$1,374,167.

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:

2014	\$ 153,832
Total minimum payments required	153,832
Less executory costs	12,962
Net minimum lease payments	140,870
Less imputed interest at rates ranging from 0% to 5.22%	1,366
Present value of net minimum lease payments	\$ 139,504

#### 17. Income Taxes

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

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

The Company maintains a full valuation allowance on its deferred tax assets because it is unable to conclude that it is more likely than not that it would realize the tax benefits of these deferred tax assets. As of June 30, 2014 and September 30, 2013, the net deferred tax asset is \$0.

In assessing the realization of the remaining deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main components of the deferred tax assets are the net operating loss carryforwards. The Company has decided to establish a full valuation allowance against the remaining balance of the deferred tax assets. A valuation allowance of \$60.0 million has been established against the net deferred tax asset of \$60.0 million as of June 30, 2014 and September 30, 2013.

The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ended June 30, 2014 and September 30, 2013, respectively.

At June 30, 2014, the Company has net operating loss carryforwards for federal income tax purposes of approximately \$181 million that expire from 2020 through 2028. The use of approximately \$36 million of these net operating losses in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax ("AMT") rules could adversely affect the Company's ability to utilize these net operating losses.

The income tax provision is computed by applying the following rates to taxable income before income taxes for the nine months ended June 30, 2014:

	2013
Tax at federal statutory rate	34.0%
Tax rate offset by our NOLs	(34.0%)
AMT rate on taxable income	2.0%
State income taxes	3.0%
	5.0%

#### 18. Share-based Compensation and Stock Options

#### **ALJ**

The Company determines the fair value of all stock-based compensation, including stock options and warrants, by using the Black-Scholes option-pricing model. Included in the selling, general and

administrative expenses for the nine months ended June 30, 2014 and 2013, the Company recognized share-based compensation expense of \$46,852 and \$0, respectively.

All share-based payments to employees are recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. The Company issued options to purchase 100,000 shares of common stock during the nine months ended June 30, 2014. These options will begin vesting on January 1, 2014. For stock options granted during the nine months ended June 30, 2014, the Company computed volatility of 807% and a risk-free interest rate of 0.70%. Volatility was computed over the most recent period commensurate with the expected term of the options. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the stock options. The Company has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly uses an expected dividend yield of zero.

The summary of stock option activity for the nine months ended June 30, 2014 is as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term
Balance outstanding as of September 30, 2013	3,375,000	\$0.62	4.6 years
Issued	100,000	\$1.60	9.5 years
Balance outstanding as of June 30, 2014	3,475,000	\$0.65	4.8 years
Options vested as of June 30, 2014	3,391,667	\$0.62	4.4 years

#### **Faneuil**

On October 18, 2013, the board of directors of Faneuil adopted the Faneuil, Inc. 2013 Stock Incentive Plan (the "Plan"). The aggregate number of shares of Faneuil's common stock which may be issued pursuant to awards under the Plan is 80,000 shares. Faneuil recognized share-based compensation expense of \$153,664, included in the selling, general and administrative expenses for the nine months ended June 30, 2014.

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. Such option vested with respect to one-third of the shares subject to the option on October 18, 2013 and one-half of the remaining unvested shares will vest on each of October 18, 2014 and October 18, 2015, conditioned on Ms. Van Buren's continuous service to Faneuil. Such option expires on October 18, 2023. For stock options granted by Faneuil during the nine months ended June 30, 2014, the Company computed volatility of 26.54% and a risk-free interest rate of 0.33%. Volatility was computed based on similar public company's volatility over the most recent period commensurate with the expected term of the stock options. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options. Faneuil has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly uses an expected dividend yield of zero.

#### 19. Tender Offer

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

#### 20. Subsequent Events

On July 1, 2014, the Limited Liability Company Operating Agreement and the Membership Agreement of Carpets, each were amended and restated to provide Mr. Chesin, with an allocation of certain interests in

Carpets. Specifically, Mr. Chesin was allocated 750,000 Class B Preferred Units and 75,000 Common Units. The interests represent an aggregate of 12% (basic) 17% (diluted) of the aggregate interests in Carpets.

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

#### **GENERAL OVERVIEW**

Commencing October 18, 2013, the Company has included the operations of Faneuil, which represents the only business segment in which the Company operated as of June 30, 2014, in its consolidated financial statements. For historical purposes, the Company included KES as a discontinued operation through February 5, 2013, which was the date on which ALJ completed its sale of KES.

Effective April 1, 2014, ALJ acquired substantially all of the equity interests of Carpets. Carpets is one of the largest floor covering retailers in Las Vegas 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. Since the acquisition occurred after June 30, 2014, ALJ did not include the results of operations of Carpets in its consolidated financial statements. Beginning April 1, 2014, ALJ included the results of operations of Carpets in its consolidated financial statements.

#### **Critical Accounting Policies and Estimates**

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

#### **Revenue Recognition**

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

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

#### **Income Taxes**

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

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2005 to 2013. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

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

#### Results of Operations for the Three and Nine Months Ended June 30, 2014 and 2013

The following table sets forth selected unaudited consolidated statements of operations data for each of the periods indicated on an actual basis and, with respect to the three and nine months ended June 30, 2014, as a percentage of total revenues for the respective periods. The consolidated statements of operations include Faneuil for the period of October 18, 2013 through June 30, 2014 and Carpets for the period April 1, 2014 through June 30, 2014.

June 30, June 30	s Ended 0,
2014 2013 2014	2013
Net Revenue \$ 43,324,978 100% \$ - \$105,566,565 100	% \$ -
Cost of revenue 32,978,587 76% - 81,127,810 77	
Gross Profit 10,346,391 24% - 24,438,755 23	
Selling, general 5,752,094 13% 107,904 13,699,077 13 and administrative	% 457,122
Income (loss) 4,594,297 11% (107,904) 10,739,678 10 from operations	% (457,122)
Dividend and 3,252 - 240,245 (14,484) interest income	- 451,289
	- (%)
Gain on sale of KES	- 76,806,891
Gain on sale of	- 10,029,058
Income from 4,225,273 10% 132,341 9,802,062 9 Continuing Operations	% 86,830,116
Income taxes on (261,019) (1%) - (705,026) (1 Continuing Operations	%) (7,240,430)
Income from Discontinued Operations (Net of income taxes)	- (159,164)
Income before 3,964,254 9% 132,341 9,097,036 8 Non-controlling interest	% 79,430,522
Non-controlling (126,892) (310,142) interest	- (12,992,109)
Net income 3,837,362 9% 132,341 8,786,894 8	66,438,413

#### For the three months ended June 30, 2014 and 2013

The operating results for the three months ended June 30, 2014, as reflected in the accompanying consolidated statements of operations and described below, include the operating results of Faneuil and Carpets from October 18, 2013, and April 1, 2014, respectively, and the operations of ALJ for the full period.

	June 30, 2014	June 30, 2013
Net Revenue		
Faneuil	\$34,999,227	-
Carpets	8,325,750	-
Consolidated Net Revenue	43,324,977	-
Cost of revenue		
Faneuil	26,676,250	-
Carpets	6,302,337	-
Consolidated cost of revenue	32,978,587	-
Gross margin		
Faneuil	8,322,977	-
Carpets	2,023,413	-
Consolidated gross margin	10,346,390	-
Selling, general and administrative		
Faneuil	4,112,185	-
Carpets	1,459,922	-
ALĴ	179,987	\$107,904
Consolidated selling, general and administrative	5,752,094	107,904

#### **Net Revenue**

Net revenue for the Faneuil segment for the three months ended June 30, 2014 was \$35.0 million, an increase of \$35.0 million over net revenue of \$0 for the three months ended June 30, 2013. The increase in net revenue was attributable to the operations of Faneuil, which were not part of the Company's operations during the three months ended June 30, 2013. Net revenue for the period was generated from six verticals with the following contribution levels: Manual Toll Collection, 28.7%; Electronic Toll Collection, 25.9%; Healthcare, 22.1%; Government/Municipal, 10.4%; Utilities, 9.2%; and Commercial, 1.6%.

Net revenue for the Carpets segment for the three months ended June 30, 2014 was \$8.3 million, an increase of \$8.3 million over net revenue of \$0 for the three months ended June 30, 2013. The increase in net revenue was attributable to the operations of Carpets, which were not part of the Company's operations during the three months ended June 30, 2013. Net revenue for the period was generated from three divisions with the following contribution levels: Residential, 65.7%, Commercial, 22.0% and Retail, 12.3%.

#### Cost of Revenue

Cost of revenue for the Faneuil segment for the three months ended June 30, 2014 was \$26.7 million, an increase of \$26.7 million over cost of revenue of \$0 for the three months ended June 30, 2013. The increase in cost of revenue was attributable to the operations of Faneuil, which were not part of the Company's operations during the three months ended June 30, 2013.

Cost of revenue for the Carpets segment for the three months ended June 30, 2014 was \$6.3 million, an increase of \$6.3 million over cost of revenue of \$0 for the three months ended June 30, 2013. The increase in cost of revenue was attributable to the operations of Carpets, which were not part of the Company's operations during the three months ended June 30, 2013.

#### **Gross Profit**

Gross profit for the Faneuil segment for the three months ended June 30, 2014 was \$8.3 million, an increase of \$8.3 million over gross profit of \$0 for the three months ended June 30, 2013. The increase in gross profit was attributable to the operations of Faneuil, which were not part of the Company's operations during the three months ended June 30, 2013. Gross profit for the Faneuil segment as a percentage of revenue for the three months ended June 30, 2014 was 23%.

Gross profit for the Carpets segment for the three months ended June 30, 2014 was \$2.0 million, an increase of \$2.0 million over gross profit of \$0 for the three months ended June 30, 2013. The increase in gross profit was attributable to the operations of Carpets, which were not part of the Company's operations during the three months ended June 30, 2013. Gross profit for the Carpets segment as a percentage of revenue for the three months ended June 30, 2014 was 24%.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the Faneuil segment for the three months ended June 30, 2014 were \$4.1 million, an increase of \$4.1 million over selling, general and administrative expenses of \$0 for the three months ended June 30, 2013. The increase was primarily attributable to the operations of Faneuil, which were not part of the Company's operations during the three months ended June 30, 2013.

Selling, general and administrative expenses for the Carpets segment for the three months ended June 30, 2014 were \$1.5 million, an increase of \$1.5 million over selling, general and administrative expenses of \$0 for the three months ended June 30, 2013. The increase was primarily attributable to the operations of Carpets, which were not part of the Company's operations during the three months ended June 30, 2013.

Selling, general and administrative expenses for ALJ for the three months ended June 30, 2014 were \$179,987 million, an increase of \$72,083 over selling, general and administrative expenses of \$107,904 for the three months ended June 30, 2013. The increase was primarily attributable to higher non-cash compensation expenses for the three months ended June 30, 2014.

#### For the nine months ended June 30, 2014 and 2013

	June 30, 2014	June 30, 2013
Net Revenue		
Faneuil	\$97,240,815	-
Carpets	8,325,750	-
Consolidated Net Revenue	105,566,565	-
Cost of revenue		
Faneuil	74,825,473	-
Carpets	6,302,337	-
Consolidated cost of revenue	81,127,810	-
Gross margin		
Faneuil	22,415,342	-
Carpets	2,023,413	-
Consolidated gross margin	24,438,755	-
Selling, general and administrative		
Faneuil	11,575,212	_
Carpets	1,459,921	-
ALJ	663,944	\$457,122
Consolidated selling, general and administrative	13,699,077	457,122

#### **Net Revenue**

Net revenue for the Faneuil segment for the nine months ended June 30, 2014 was \$97.2 million, an increase of \$97.2 million over net revenue of \$0 for the nine months ended June 30, 2013. The increase in net revenue was attributable to the operations of Faneuil, which were not part of the Company's operations during the nine months ended June 30, 2013. Net revenue for the period were generated from six verticals with the following contribution levels: Manual Toll Collection, 30.4%; Electronic Toll Collection, 25.9%; Healthcare, 22.1%; Government/Municipal, 11.0%; Utilities, 8.8%; and Commercial, 1.8%.

Net revenue for the Carpets segment for the nine months ended June 30, 2014 was \$8.3 million, an increase of \$8.3 million over net revenue of \$0 for the three months ended June 30, 2013. The increase in net revenue was attributable to the operations of Carpets, which were not part of the Company's operations during the nine months ended June 30, 2013. Net revenue for the period was generated from nine divisions with the following contribution levels: Residential, 65.7%, Commercial, 22.0% and Retail, 12.3%.

#### **Cost of Revenue**

Cost of revenue for the Faneuil segment for the nine months ended June 30, 2014 was \$74.8 million, an increase of \$74.8 million over cost of revenue of \$0 for the nine months ended June 30, 2013. The increase in cost of sales was attributable to the operations of Faneuil, which were not part of the Company's operations during the nine months ended June 30, 2013.

Cost of revenue for the Carpets segment for the nine months ended June 30, 2014 was \$6.3 million, an increase of \$6.3 million over cost of revenue of \$0 for the nine months ended June 30, 2013. The increase in cost of revenue was attributable to the operations of Carpets, which were not part of the Company's operations during the nine months ended June 30, 2013.

#### **Gross Profit**

Gross profit for the Faneuil segment for the nine months ended June 30, 2014 was \$22.4 million, an increase of \$22.4 million over gross profit of \$0 for the nine months ended June 30, 2013. The increase in gross profit was attributable to the operations of Faneuil, which were not part of the Company's operations during the nine months ended June 30, 2013. Gross profit for the Faneuil segment as a percentage of sales for the nine months ended June 30, 2014 was 23%.

Gross profit for the Carpets segment for the nine months ended June 30, 2014 was \$2.0 million, an increase of \$2.0 million over gross profit of \$0 for the nine months ended June 30, 2013. The increase in gross profit was attributable to the operations of Carpets, which were not part of the Company's operations during the nine months ended June 30, 2013. Gross profit for the Carpets segment as a percentage of revenue for the nine months ended June 30, 2014 was 24%.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the Faneuil segment for the nine months ended June 30, 2014 were \$11.6 million, an increase of \$11.6 million over selling, general and administrative expenses of \$0 for the nine months ended June 30, 2013. The increase was primarily attributable to the operations of Faneuil, which were not part of the Company's operations during the nine months ended June 30, 2013.

Selling, general and administrative expenses for the Carpets segment for the nine months ended June 30, 2014 were \$1.5 million, an increase of \$1.5 million over selling, general and administrative expenses of \$0 for the nine months ended June 30, 2013. The increase was primarily attributable to the operations of Carpets, which were not part of the Company's operations during the nine months ended June 30, 2013.

Selling, general and administrative expenses for ALJ for the nine months ended June 30, 2014 were \$663,944 million, an increase of \$206,822 over selling, general and administrative expenses of \$457,122 for the nine months ended June 30, 2013. The increase was primarily attributable to \$130,000 in bonuses awarded to management and board members for performance related to the Faneuil acquisition.

#### 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, 2014.

#### **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 related to the sale of KES, compared to \$0 for the nine months ended June 30, 2014.

#### Liquidity and Capital Resources – June 30, 2014

The Company recognized net income of \$8.8 million for the nine months ended June 30, 2014 and generated positive cash flow from operating activities of \$10.3 million and from financing activities of \$2.6 million partially offset by used from investing activities of \$27.0 million, primarily related to the purchase of Faneuil of \$19.1 million and Carpets of \$5.3 million. The Company had an accumulated deficit of \$226.4 million and stockholders' equity of \$41.5 million at June 30, 2014.

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

On October 18, 2013, the Company acquired Faneuil for \$53.0 million, consisting of \$25.0 million in cash, a contribution of \$500,000 in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at \$2.5 million and a seller note for \$25.0 million. Also on October 18, 2013, Faneuil and M&T Bank entered into a Loan and Security Agreement and Trademark Security Agreement, pursuant to which agreements M&T Bank provided Faneuil a \$5.0 million senior secured revolving line of credit.

Effective April 1, 2014, ALJ acquired all of the equity interests of Carpets pursuant to a purchase and sale agreement, dated April 14, 2014, by and among ALJ, the seller and Carpets. ALJ paid \$5.25 million, in

cash to the seller for all of the equity interests in Carpets. Concurrently with the closing, ALJ invested \$240,000 in Carpets for a total ownership percentage of 100.00% (basic) or 93.19% (fully diluted) and Mr. Chesin, the Chief Executive Officer of Carpets, received an ownership percentage of 0.00% (basic) or 6.81% (fully diluted) of Carpets. ALJ issued 40,000 Equity Award Units in Carpets to Mr. Chesin, which vest at 10,000 on each of December 31, 2014, 2015, 2016 and 2017.

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, and the incurrence of \$2.0 million in debt from Libra Securities Holdings, LLC, a related party, by issuance of the Promissory Note dated April 7, 2014. 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.

ALJ believes that its cash resources will be adequate to fund its operations through June 30, 2015. However, to the extent that the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

#### **Operating Activities**

During the nine months ended June 30, 2014, the Company generated \$10.3 million from operating activities, primarily attributable to net income of \$8.8 million, increases of accrued expenses of \$2.6 million, and \$2.0 million in depreciation and amortization, partially offset by a decrease in accounts receivable of \$3.6 million and inventory of \$1.4 million.

#### **Investing Activities**

For the nine months ended June 30, 2014, the Company used cash from investing activities of \$27.0 million, primarily related to the purchase of Faneuil of \$19.1 million, the purchase of Carpets of \$5.3 million and the purchase of equipment of \$2.7 million.

#### **Financing Activities**

For the nine months ended June 30, 2014, the Company generated cash from financing activities of \$2.6 million, primarily related to the sale of ALJ stock for \$2.2 million, the issuance of the Libra Promissory Note for \$2.0 million and proceeds related to the sale of non-controlling interest of \$1.1 million in Faneuil, partially reduced by the payments against the term notes payable of \$2.8 million.

#### **Principal Commitments**

At June 30, 2014, the Company's principal commitments consisted of the following obligations:

Payments Due by Twelve Month Periods Ending June 30, (in thousands)

	(iii tiiousanus)					
Contractual cash obligations	Total	2015	2016	2017	2018	Thereafter
Faneuil - Note payable	22,339	4,000	18,339	-	-	-
– Harland Clarke						
Faneuil – Line of Credit – M&T Bank	-	-	-	-	-	-
ALJ – Note payable – Libra Securities	2,000	-	-	-	-	2,000
Faneuil – Operating Leases	6,388	2,249	1,561	1,354	907	317
Carpets – Operating Leases	2,315	510	581	466	351	407
Faneuil – Capital Lease Obligations	154	154	-	-	-	-
Total contractual Cash obligations	\$33,196	\$6,913	\$20,481	\$1,820	\$1,258	\$2,724

Faneuil has committed an additional \$1.5 million towards capital expansion projects directly related to awarded contracts.

#### **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, 2014.

#### ITEM 5. LEGAL PROCEEDINGS

The Company's subsidiaries are from time to time defendants in actions for matters arising out of normal business operations. The Company concluded as of June 30, 2014 that no legal proceedings then pending or threatened will have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

#### ITEM 6. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 7. OTHER INFORMATION

None.

#### RISK FACTORS

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

#### Risks Related to Faneuil

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

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

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

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

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

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

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

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

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

One or a few clients have in the past and may in the future contribute a significant portion of Faneuil's consolidated revenue in one year, or over a period of several consecutive years. For the nine months ended June 30, 2014, the Company had one customer that accounted for approximately 38.9% of net revenue. Faneuil has long standing relationships with many of its significant customers. However, because Faneuil's customers generally contract with it for specific projects or programs with a finite duration, Faneuil may lose these customers if funding for their program is discontinued, or their projects come to an end and the contract is not renewed or replaced. The loss or reduction of, or failure to renew or replace, any significant contracts with any of these customers could materially reduce Faneuil's revenue and cash flows. Additionally, many of Faneuil's customers are government entities. In many situations, government entities

can unilaterally terminate or modify Faneuil's existing contracts without cause and without penalty to the government agency. If Faneuil does not replace them with other customers or other programs, the loss of business from any one of such customers could have a material adverse effect on its business or results of operations.

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

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

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

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

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

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

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

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

# If Faneuil or a primary contractor guarantees to a customer the timely implementation or performance standards of a program, Faneuil could incur additional costs to meet its guarantee obligations or liquidated damages if it fails to do so.

In certain instances Faneuil or a primary contractor guarantees a customer that it will implement a program by a scheduled date. They sometimes also provide that the program will achieve or adhere to certain performance standards or key performance indicators. Although Faneuil provides input to primary contractors regarding the scope of services and service levels to be provided, it is possible that a primary contractor may make commitments without Faneuil's input or approval. If Faneuil or the primary contractor subsequently fails to implement the program as scheduled, or if the program subsequently fails to meet the guaranteed performance standards, Faneuil may be held responsible for costs to the client resulting from any delay in implementation, or the costs incurred by the program to achieve the performance standards. In most cases where Faneuil or the primary contractor fails to meet contract defined performance standards, Faneuil may be subject to agreed-upon liquidated damages. To the extent that these events occur, the total costs for the program would exceed Faneuil's original estimates and it could experience reduced profits or in some cases a loss for that program.

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

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

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

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

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

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

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

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

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

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

#### Faneuil may incur material restructuring charges in the future.

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

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

Because Faneuil operates in intensely competitive markets, Faneuil's success depends to a significant extent upon its ability to attract, retain and motivate highly skilled and qualified personnel and to subcontract with qualified, competent subcontractors. If Faneuil fails to attract, develop, motivate, retain and effectively utilize personnel with the desired levels of training or experience, or is unable to contract with qualified, competent subcontractors, Faneuil's business, financial condition, and results of operations

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

#### Faneuil's ability to engage in some business transactions may be limited by the terms of our debt.

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

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

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

#### Risks Related to Carpets

The floor covering industry is highly dependent on national and regional economic conditions, such as consumer confidence and income, corporate and individual spending, interest rate levels, availability of credit and demand for housing, and a decline in residential or commercial construction activity or remodeling and refurbishment in Las Vegas could have a material adverse effect on our business.

The floor covering industry is highly dependent on construction activity, including new construction, which is cyclical in nature and recently experienced a downturn. The downturn in the U.S. and global economies, along with the residential and commercial markets in such economies, particularly in Las Vegas, negatively impacted the floor covering industry and Carpets' business. Although the impact of a decline in new construction activity is typically accompanied by an increase in remodeling and replacement activity, these activities lagged during the downturn. Although these difficult economic conditions have improved, there

may be additional downturns that could cause the industry to deteriorate in the future. A significant or prolonged decline in residential or commercial remodeling or new construction activity could have a material adverse effect on the Company's business and results of operations.

We face intense competition in the floor covering industry that could decrease demand for our products or force us to lower prices, which could have a material adverse effect on our business.

The floor covering industry is highly competitive. We compete with a number of home improvement stores, building materials supply houses and lumber yards, specialty design stores, showrooms, discount stores, local, regional and national hardware stores, mail order firms, warehouse clubs, independent building supply stores and other retailers, as well as with installers. In addition, we face growing competition from online and multichannel retailers as our customers increasingly use computers, tablets, smart phones and other mobile devices to shop online and compare prices and products in real time. Intense competitive pressures from one or more of our competitors or our inability to adapt effectively and quickly to a changing competitive landscape could affect our prices, our margins or demand for our products and services. If we are unable to timely and appropriately respond to these competitive pressures, including through maintaining competitive location of stores, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation, our market share and our financial performance could be adversely affected.

We may not timely identify or effectively respond to consumer needs, expectations or trends, which could adversely affect our relationship with customers, our reputation, the demand for our products and services, and our market share.

Carpets operates in a market sector where demand is strongly influenced by rapidly changing customer preferences as to product design and features. Our success depends on our ability to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. In addition, long lead times for certain of our products may make it hard for us to quickly respond to changes in consumer demands. Consumer preferences could shift rapidly to different types of products or away from the types of products we carry altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels, which could have a material adverse effect on our financial condition.

We rely on third-party suppliers for our products. If we fail to identify and develop relationships with a sufficient number of qualified suppliers, or if our suppliers experience financial difficulties, our ability to timely and efficiently access products that meet our standards could be adversely affected.

We source, stock, and sell products from vendors and their ability to reliably and efficiently fulfill our orders is critical to our business success. Our ability to continue to identify and develop relationships with qualified suppliers who can satisfy our standards for quality and our need to access products in a timely, efficient and cost-effective manner is a significant challenge. Our ability to access products also can be adversely affected by political instability, the financial instability of suppliers, suppliers' noncompliance with applicable laws, trade restrictions, tariffs, currency exchange rates, supply disruptions, weather conditions, natural disasters, shipping interruptions or costs, and other factors beyond our control. If these vendors fail or are unable to perform as expected and we are unable to replace them quickly, our business could be adversely affected, at least temporarily, until we are able to do so and potentially, in some cases, permanently.

Failure to achieve and maintain a high level of product and service quality could damage our image with customers and negatively impact our sales, profitability, cash flows and financial condition.

Product and service quality issues could result in a negative impact on customer confidence in Carpets and the Carpets brand image. As a result, Carpets' reputation as a retailer of high quality products and services

could suffer and impact customer loyalty. Additionally, a decline in product and service quality could result in product recalls, product liability and warranty claims.

### If we are unable to manage effectively our installation service business, we could suffer lost sales and be subject to fines, lawsuits and damaged reputation.

We act as a general contractor to provide installation services to our customers. As such, we are subject to regulatory requirements and risks applicable to general contractors, which include management of licensing, permitting and quality of our installers. If we fail to manage these processes effectively or provide proper oversight of these services, we could suffer lost sales, fines and lawsuits, as well as damage to our reputation, which could adversely affect our business.

### Our success depends upon our ability to attract, train and retain highly qualified associates while also controlling our labor costs.

Our customers expect a high level of customer service and product knowledge from our associates. To meet the needs and expectations of our customers, we must attract, train and retain a large number of highly qualified associates while at the same time controlling labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and health and other insurance costs, as well as the impact of legislation or regulations governing labor relations or healthcare benefits. In addition, we compete with other retail businesses for many of our associates in hourly positions, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions have historically had high turnover rates, which can lead to increased training and retention costs. There is no assurance that we will be able to attract or retain highly qualified associates in the future.

#### Risks Related to our Businesses Generally and our Common Stock

### Account data breaches involving stored data or misuse of such data could adversely affect our reputation, performance and financial condition.

Both Faneuil and Carpets provide services which involve the storage of non-public information. Cyberattacks designed to gain access to sensitive information are constantly evolving, and high profile electronic security breaches leading to unauthorized release of sensitive information have occurred recently at a number of major U.S. companies, including several large retailers, despite widespread recognition of the cyber-attack threat and improved data protection methods. Any breach of the systems on which sensitive data and account information are stored or archived and any misuse by our own employees, by employees of data archiving services or by other unauthorized users of such data could lead to damage to our reputation, claims against us and other potential increases in costs. If we are unsuccessful in defending any lawsuit involving such data security breaches or misuse, we may be forced to pay damages, which could materially and adversely affect our profitability and financial condition. In addition, damage to our reputation stemming from such breaches could adversely affect our future prospects. As the regulatory environment relating to companies' obligation to protect such sensitive data becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines or other regulatory sanctions.

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

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

We cannot assure you that Faneuil and Carpets will generate sufficient cash flow from operations, or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs.

We cannot assure you that Faneuil will generate sufficient cash flow from operations, or that future borrowings will be available to Faneuil in an amount sufficient to enable it to pay its indebtedness, or to fund its other liquidity needs. We will need to refinance all or a portion of Faneuil's indebtedness, on or before maturity. We cannot assure you that we will be able to refinance any of Faneuil's indebtedness on commercially reasonable terms or at all, particularly given the current state of credit markets.

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

Our ability to utilize net operating loss carry-forwards ("NOLs") and built in losses under Section 382 ("Section 382") of the Internal Revenue Code of 1986, as amended (the "Code") and tax credit carry-forwards to offset our future taxable income and/or to recover previously paid taxes would be limited if we were to undergo an "ownership change" within the meaning of Section 382 of the Code.

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

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% stockholders, our ability to use our NOLs and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We had approximately \$181 million of (pre-tax) NOLs as of June 30, 2014. The NOLs begin to expire in 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs would have a negative impact on our financial position and results of operations.

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

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

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

#### Our internal controls and procedures may be deficient.

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

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

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

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

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

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

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

#### The market price of our common stock is volatile.

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

- our quarterly operating results or the operating results of other companies in our industry;
- changes in general conditions in the economy, the financial markets or our industry;
- announcements by our competitors of significant acquisitions; and
- increases in raw materials and other costs.

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

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

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

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

We have a stockholder rights plan designed to preserve the value of certain tax assets primarily associated with our NOLs and built in losses under Section 382. At June 30, 2014, the Company had approximately \$181 million in NOLs and the use of such losses to offset federal income tax would be limited if the

Company experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company's stock by value increase their collective ownership of the aggregate amount of the Company's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

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

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

#### **ITEM 8. EXHIBITS**

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

#### **EXHIBITS**

Exhibit No.	Description
1	First Amendment to Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 1, 2010 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2010 available at www.pinksheets.com).
2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2009 available at www.pinksheets.com).
3	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006 (incorporated by reference to Exhibit 2 to the Company's Annual Report for the year ended September 30, 2006 available at www.pinksheets.com).
4	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com).
5	Rights Agreement dated May 13, 2009 by and between ALJ Regional Holdings, Inc. and American Stock Transfer and Trust Company, LLC (incorporated by reference to Annex B to the Company's Proxy Statement dated May 15, 2009 available at www.pinksheets.com).
6	Loan and Security Agreement, dated October 18, 2013, by and among Faneuil, Inc., Faneuil Toll Operations LLC and M&T Bank (incorporated by reference to Exhibit 9 to the Company's Annual Report for the year ended September 30, 2013 available at ).
7*	Promissory Note, dated April 7, 2014, by ALJ Regional Holdings, Inc. to Libra Securities Holdings, LLC.

<sup>\*</sup> Filed herewith.

### 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, 2014;
- 2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
- 3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the periods presented in this disclosure statement.

Date: August 14, 2014

/S/ Jess Ravich
Jess Ravich.

Executive Chairman

#### **Certification of the Chief Financial Officer**

- I, T. Robert Christ, hereby certify that:
  - 1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended June 30, 2014;
  - 2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
  - 3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the periods presented in this disclosure statement.

Date: August 14, 2014

/S/ T. Robert Christ

T. Robert Christ, Chief Financial Officer