ALJ REGIONAL HOLDINGS, INC.

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

(212) 883-0083

Quarterly Report for the
Period Ended
March 31, 2014

ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report for the Period Ended March 31, 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 Faneuil, Inc. ("Faneuil"), the ability of Faneuil to implement new programs that will recognize revenue, the effect of legal proceedings on the Company's business, the ability of the Company's stockholder rights plan to protect its net operating losses, the Company not paying cash dividends in the foreseeable future, the Company's ability to continue to fund its operations and service its indebtedness, the adequacy of the Company's accrual for tax liabilities, management's projection of continued taxable income, and the Company's ability to offset future income against net operating loss carryovers, constitute forward-looking statements. The words "can," "could," "may," "will," "would," "plan," "future," "believes," "intends," "expects," "anticipates," "estimates," and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. Actual results or events could differ materially from those set forth or implied by such forward-looking statements and related assumptions due to certain important factors, including, without limitation, the risks set forth under the caption "Risk Factors" below, which are incorporated herein by reference. The Company is also subject to general business risks, including its success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, adverse state, federal or foreign legislation and regulation, changes in general economic factors, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters. Any forward-looking statements included in this Report are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any forward-looking statements.

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

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

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

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

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

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

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

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

ITEM 2. SHARES OUTSTANDING

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

	Common Stock Period End Date			**Preferred Stock Period End Date**		
	March 31, 2014	September 30, 2013	September 30, 2012	March 31, 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	29,744,913	26,744,913	57,246,598	0	0	0

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

As of March 31, 2014, there were 199 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 March 31, 2014.

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)

	March 31, 2014	September 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,578,898	$ 27,825,326
Accounts receivable, less allowance for doubtful accounts of $227,000 at March 31, 2014 and $0 at September 30, 2013	23,799,099	-
Prepaid expenses and other current assets	5,847,618	129,492
Deferred taxes	932,000	-
Total current assets	$ 40,157,615	$ 27,954,818
Property, plant and equipment	18,613,268	-
Less accumulated depreciation and amortization	(8,733,846)	-
Property, plant and equipment, net	9,879,422	-
Other assets:		
Goodwill	13,815,975	-
Intangible Assets	15,058,500	-
Other Assets	146,082	-
Investment in Bellator	102,077	102,077
Total other assets	29,122,634	102,077
Total assets	$ 79,159,671	$ 28,056,895

(continued)

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

(continued)

	March 31, 2014	September 30, 2013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,344,777	$ -
Accrued expenses	6,705,655	-
Income taxes payable	444,007	-
Current portion of note payable	4,000,000	-
Current portion of deferred revenue	5,930,762	-
Current portion of capital lease obligations	234,601	-
Other liabilities	445,499	-
Liabilities related to discontinued operations	298,466	298,466
Total current liabilities	$ 19,403,767	$ 298,466
Non-current liabilities:		
Workman's compensation reserve	1,592,745	-
Unearned revenue	168,775	-
Note payable, less current portion	20,000,000	-
Deferred revenue, less current portion	826,441	-
Deferred tax liability	114,000	-
Other Liabilities	398,523	-
Minority interest	1,283,242	-
Total liabilities	$ 43,787,493	$ 298,466
Commitments and contingencies		
Stockholders' equity (deficiency):		
Common stock, $0.01 par value; authorized - 100,000,000 shares; 29,744,913 issued and outstanding at March 31, 2014 and 26,744,913 issued and outstanding at September 30, 2013	297,612	267,612
Additional paid-in capital	265,390,007	262,755,790
Accumulated deficit	(230,286,414)	(235,235,946)
Treasury stock – 25,000 shares, at cost	(29,027)	(29,027)
Total stockholders' equity	35,372,178	27,758,429
Total liabilities and stockholders' equity	$ 79,159,671	$ 28,056,895

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	**2013**	**2014**	**2013**
NET SALES	$ 36,408,273	$ --	$ 62,241,587	$ --
COSTS AND EXPENSES				
Cost of sales	27,888,102	--	48,149,223	--
Selling, general and administrative	4,285,478	211,248	7,946,983	349,217
Total cost of operations	32,173,580	211,248	56,096,206	349,217
(Loss) Income from operations	4,234,693	(211,248)	6,145,381	(349,217)
OTHER INCOME (EXPENSE)				
Interest and dividend income	4,365	201,172	11,232	211,042
Interest expense	(315,296)	--	(579,824)	--
Gain on sale of KES	--	76,806,891	--	76,806,891
Gain on settlement of Minority Interest	--	10,029,058	--	10,029,058
Total other income (expense)	(310,931)	87,037,121	(568,592)	87,046,991
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, DISCONTINUED OPERATIONS AND MINORITY INTEREST	3,923,762	86,825,873	5,576,789	86,697,774
INCOME TAXES ON CONTINUING OPERATIONS	(321,575)	(7,230,430)	(444,007)	(7,240,430)
INCOME BEFORE DISCONTINUED OPERATIONS AND MINORITY INTEREST	3,602,187	79,595,443	5,132,782	79,457,344
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	--	1,423,802	--	(159,164)
INCOME TAXES ON DISCONTINUED OPERATIONS	--	(5,602)	--	--
INCOME FROM DISCOUNTINUED OPERATIONS, NET OF TAXES	--	1,418,200	--	(159,164)
INCOME BEFORE MINORITY INTEREST	3,602,187	81,013,643	5,132,782	79,298,180
MINORITY INTEREST	(122,778)	(13,198,066)	(183,250)	(12,992,109)
NET INCOME	3,479,409	67,815,577	4,949,532	66,306,071
NET INCOME (LOSS) PER COMMON SHARE -				
Basic	$0.12	$1.60	$0.18	$1.57
Dilutive	$0.11	$1.52	$0.16	$1.49
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	29,744,913	42,446,598	28,244,913	42,346,598
Dilutive	33,124,080	44,646,598	31,624,080	44,646,598

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)
SIX MONTHS ENDED MARCH 31, 2014

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balances at September 30, 2013	26,744,913	$ 267,612	$ 262,755,790	$ (235,235,946)	$ (29,027)	$ 27,758,429
Issuance of stock for the purchase of Faneuil	3,000,000	30,000	2,470,000			2,500,000
Share-based compensation:						
Issuance of options			164,217			164,217
Net income				4,949,532		4,949,532
Balances at March 31, 2014	29,744,913	$ 297,612	$ 265,390,007	$ (230,286,414)	$ (29,027)	$ 35,372,178

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended December 31,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,949,532	$ (1,509,506)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,638,367	62,978
Stock-based compensation	164,217	-
Amortization of deferred loan costs	-	34,595
Provision for bad debts	-	(165,460)
Minority interest – related parties	183,242	(205,957)
Changes in operating assets and liabilities:		
(Increase) decrease in -		
Accounts receivable, net	(7,229,452)	2,751,408
Inventories	-	(2,216,864)
Other assets	(66,787)	-
Prepaid expenses and other receivables	(449,442)	366,786
Increase (decrease) in -		
Accounts payable	420,131	1,709,661
Accrued expenses	1,371,739	(1,185,000)
Workman's compensation reserve	327,941	-
Deferred revenue	2,313,229	-
Unearned revenue	(196,681)	-
Other liabilities	461,282	-
Capital lease obligations	(168,351)	-
Income taxes payable	444,007	(4,007)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	4,162,974	(361,366)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Faneuil	(19,081,201)	-
Sale of minority interest in Faneuil	1,100,000	-
Purchase of equipment	(3,428,201)	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(21,409,402)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of stock options	-	46,000
Repayments on term loans	(1,000,000)	(500,000)
Net repayments under secured line of credit	-	(1,439,906)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,000,000)	(1,893,906)
NET CASH (USED IN) PROVIDED BY OPERATING, INVESTING AND FINANCING ACTIVITIES	(18,246,428)	(2,255,272)
CASH AND CASH EQUIVALENTS		
Net (decrease) increase	(18,246,428)	(2,255,272)
Balance at beginning of period	27,825,326	2,823,576
Balance at end of period	9,578,898	568,304
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	577,073	147,510
Taxes	-	351,698

See accompanying notes to condensed consolidated financial statements.

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), which represents the only active business segment in which the Company operated as of March 31, 2014.

On April 16, 2014, ALJ acquired substantially all of the equity interests of Floors-N-More, LLC, dba, Carpets N' More ("Carpets"). Carpets is the largest floor covering retailer 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 March 31, 2014, ALJ did not include the results of operations of Carpets in its consolidated financial statements. Beginning April 16, 2014, ALJ will include the results of operations of Carpets in its consolidated financial statements.

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

The accompanying condensed consolidated financial statements are unaudited, but in the opinion of Company management, contain all adjustments, which include normal recurring accruals, necessary to present fairly the financial position at March 31, 2014 and September 30, 2013, the results of operations for the six months ended March 31, 2014 and 2013, and the cash flows for the six months ended March 31, 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.

Liquidity and Capital Resources

The Company recognized net income of $4.9 million, generated positive cash flow from operating activities of $4.2 million, used cash flow from investing activities of $21.4 million, primarily related to the purchase of Faneuil of $19.1 million, and used cash from financing activities of $1.0 million for the six months ended March 31, 2014. The Company had an accumulated deficit of $230.3 million and stockholder's equity of $35.4 million at March 31, 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.

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 $2,500,000 and a seller note for $25.0 million (the "Harland Clarke Note"). ALJ acquired 96.43% of Faneuil's outstanding capital stock and the remaining 3.57% was acquired by Ms. Van Buren.

On October 18, 2013, Faneuil also entered into a Loan and Security Agreement by and among Faneuil and its wholly owned subsidiary, Faneuil Toll Operations LLC, as borrowers, and M&T Bank, providing for an asset based $5,000,000 revolving line of credit (the "M&T Credit Facility"). The revolving loans are subject to customary conditions precedent as well as a borrowing base limitation. In addition to the revolving loans, the M&T Credit Facility also provides for the issuance of letters of credit, which, together with all outstanding revolving loans, are subject to a dollar cap equal to the lesser of the borrowing base and $5,000,000. The M&T Credit Facility bears interest at a variable rate based on one-month LIBOR. The M&T Credit Facility was undrawn at closing and 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.

ALJ believes that its current cash resources will be adequate to fund its operations through March 31, 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 asset as of March 31, 2014 was substantially all of the outstanding capital stock of Faneuil, a leading provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries.

Cash and Cash Equivalents

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

Accounts Receivable

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

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

Stock-Based Compensation

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

Property, Plant and Equipment

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

Depreciation is provided principally over the following useful lives:

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

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

Revenue Recognition

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

Revenues from non-refundable up-front payments attributable to contract implementation, though not tied to achieving a specific performance milestone, are recognized over the initial term of the contract. At-risk milestone payments, which are based on achieving a specific performance milestone, are recognized as revenue when the milestone is achieved and the related payment is due, 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.

Insurance Reserves

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

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.

Amortization is provided principally over the following useful lives:

Customer relationships	12.5 years
Internal software	6 years
Trade name	Indefinite

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.

For the six months ended March 31, 2014, the Company had one customer that accounted for approximately 38.9% of net sales, of which approximately $4.4 million was included in accounts receivable at March 31, 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 six months ended March 31, 2014 and 2013:

	Three Months Ended March 31,		**Six Months Ended March 31,**	
	2014	**2013**	**2014**	**2013**
Weighted average shares outstanding, basic	29,744,913	42,446,598	28,244,913	42,346,598
Dilutive effect of:				
Options to purchase common stock	3,379,167	2,200,000	3,379,167	2,300,000
Weighted average shares outstanding, diluted	33,124,080	44,646,598	31,624,080	44,646,598

Recently Issued or Adopted Accounting Standards

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

3. Acquisition of Faneuil

On October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil from Harland Clarke pursuant to a stock purchase agreement, dated October 18, 2013, by and among ALJ, Anna Van Buren, Faneuil's Chief Executive Officer, as an individual purchaser, and Harland Clarke. ALJ and Ms. Van Buren collectively acquired all of the capital stock of Faneuil from Harland Clarke for aggregate consideration of $53.0 million, consisting of $25.0 million in cash, a contribution of $500,000 in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at $2,500,000 and 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. Related Party Transactions

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

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

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

5. Discontinued Operations Unrelated to KES

As of March 31, 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.

6. Discontinued Operations Related to KES

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

As a result, KES is now being reported as a Discontinued Operation on ALJ's financial statements. KES recognized $48.0 million in revenue for the six months ended March 31, 2013 and recognized a loss of $159,164 during the six months ended March 31, 2013.

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

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

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

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

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

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

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

7. Accounts Receivable

Accounts Receivable at March 31, 2014 and September 30, 2013 consisted of the following:

	March 31, 2014 Unaudited	September 30, 2013
Accounts receivable	$ 19,744,302	$ ---
Unbilled receivables	4,281,797	---
Less: Allowance for doubtful accounts	(227,000)	
Total	$ 23,799,099	$ ---

8. Property, Plant and Equipment

Property, plant and equipment at March 31, 2014 and September 30, 2013 consisted of the following:

	March 31, 2014 Unaudited	September 30, 2013
Computer and office equipment	$ 6,813,891	$ ---
Computer software	4,184,902	---
Furniture and fixtures	2,389,867	---
Leasehold improvements	2,813,290	---
Construction in progress	2,411,318	---
Total	18,613,268	---
Less: Accumulated depreciation and amortization	(8,733,846)	---
	$ 9,879,422	---

Depreciation expense was $1,116,854 for the six months ended March 31, 2014.

9. Intangible Assets

Intangible assets at March 31, 2014 and September 30, 2013 consisted of the following:

	March 31, 2014 Unaudited	September 30, 2013
Customer relationships	$ 13,500,000	$ ---
Trade name	1,500,000	---
Internal software	589,894	
Total	15,589,894	---
Less: Accumulated amortization	(531,394)	---
	$ 15,058,500	---

Amortization expense was $531,394 for the six months ended March 31, 2014.

10. 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 March 31, 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.

11. Note Payable

The Harland Clarke Note provides for a two-year maturity with interest in the first year at five percent (5%) and interest in the second year at seven and one half percent (7.5%). The Harland Clarke Note has mandatory amortization of $1,000,000 per quarter with an annual cash flow sweep based on a defined free cash calculation. Additionally, Faneuil's obligations under the Harland Clarke Note are secured by a pledge of ALJ's stock of Faneuil and the stock of Faneuil's subsidiaries, subject to certain limitations. As of March 31, 2014, the balance on the note payable was $24.0 million not including accrued interest of $3,333.

12. Commitments and Contingencies

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

2014	$1,751,686
2015	1,787,594
2016	1,417,213
2017	1,246,136
2018	573,524
Thereafter	48,885
	$6,825,038

During the six months ended March 31, 2014, rental expense under operating leases was $824,037.

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

2014	$249,278
2015	9,504
Total minimum payments required	258,782
Less executory costs	20,739
Net minimum lease payments	238,043
Less imputed interest at rates ranging from 0% to 5.22%	3,442
Present value of net minimum lease payments	$234,601

13. 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 March 31, 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 March 31, 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 March 31, 2014 and September 30, 2013, respectively.

At March 31, 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 six months ended March 31, 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	4.0%
	6.0%

14. 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 six months ended March 31, 2014 and 2013, the Company recognized share-based compensation expense of $33,600 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 six months ended March 31, 2014. These options will begin vesting on January 1, 2014. For stock options granted during the six months ended March 31, 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 six months ended March 31, 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	4.8 years
Issued	100,000	$1.60	9.8 years
Balance outstanding as of March 31, 2014	3,475,000	$0.65	5.1 years
Options vested as of March 31, 2014	3,383,333	$0.62	4.7 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 $130,617, included in the selling, general and administrative expenses for the six months ended March 31, 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 six months ended March 31, 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.

15. Tender Offer

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

16. Subsequent Events

On April 16, 2014, ALJ acquired substantially all of the equity interests of Carpets pursuant to a purchase and sale agreement, dated April 7, 2014, by and among ALJ, the seller and Carpets. ALJ paid $5.47 million, including expenses of the transaction, in cash to the seller for all of the equity interests in Carpets. Concurrently with the closing, Carpets was recapitalized in a transaction resulting in ALJ owning 87.94% (basic) or 82.63% (fully diluted) and Mr. Chesin, the Chief Executive Officer of Carpets, owning 12.06% (basic) or 17.37% (fully diluted) of Carpets.

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.

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 March 31, 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.

On April 16, 2014, ALJ acquired substantially all of the equity interests of Carpets. Carpets is the largest floor covering retailer 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 March 31, 2014, ALJ did not include the results of operations of Carpets in its consolidated financial statements. Beginning April 16, 2014, ALJ will include 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 Six Months Ended March 31, 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 six months ended March 31, 2014, as a percentage of total revenues for the respective periods. ALJ acquired Carpets after the period ended March 31, 2014; therefore, Carpet's operations are not presented in the table below.

	Three Months Ended March 31,			Six Months Ended March 31,		
	2014		2013	2014		2013
Net Sales	$36,408,273	100%	$ --	$ 62,241,587	100%	$ --
Cost of sales	27,888,102	77%	--	48,149,223	77%	--
Gross Profit	8,520,171	23%	--	14,092,364	23%	--
Selling, general and administrative	4,285,478	11%	211,248	7,946,983	13%	349,217
Income (loss) from operations	4,234,693	12%	(211,248)	6,145,381	10%	(349,217)
Dividend and interest income	4,365	--	201,172	11,232	--	211,042
Interest expense	(315,296)	(1%)	--	(579,824)	(1%)	--
Gain on sale of KES	--	--	76,806,891	--	--	76,806,891
Gain on sale of Minority Interest	--	--	10,029,058	--	--	10,029,058
Income from Continuing Operations	3,923,762	11%	86,825,873	5,576,789	9%	86,697,774
Income taxes on Continuing Operations	(321,575)	(1%)	(7,230,430)	(444,007)	(1%)	(7,240,430)
Income from Discontinued Operations (Net of income taxes)	--	--	1,418,200	--	--	(159,164)
Income before Minority Interest	3,602,187	10%	81,013,643	5,132,782	8%	79,298,180
Minority Interest	(122,778)	--	13,198,066	(183,250)	--	12,992,109
Net income	3,479,409	10%	67,815,577	4,949,532	8%	66,306,071

For the three months ended March 31, 2014 and 2013

Net Sales

Net sales for the three months ended March 31, 2014 were $36.4 million, an increase of $36.4 million over net sales of $0 for the three months ended March 31, 2013. The increase in net sales was attributable to the operations of Faneuil, which were not part of the Company's operations during the three months ended March 31, 2013. Net sales for the period were generated from six verticals with the following contribution levels: Manual Toll Collection, 28.5%; Electronic Toll Collection, 26.0%; Healthcare, 25.0%; Government/Municipal, 11.0%; Utilities, 7.5%; and Commercial, 2.0%.

Cost of Sales

Cost of sales for the three months ended March 31, 2014 was $27.9 million, an increase of $27.9 million over cost of sales of $0 for the three months ended March 31, 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 three months ended March 31, 2013.

Gross Profit

Gross profit for the three months ended March 31, 2014 was $8.5 million, an increase of $8.5 million over gross profit of $0 for the three months ended March 31, 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 March 31, 2013. Gross profit as a percentage of sales for the three months ended March 31, 2014 was 23%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2014 were $4.3 million, an increase of $4.1 million over selling, general and administrative expenses of $211,248 for the three months ended March 31, 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 March 31, 2013.

Gain on the Sale of KES

During the three months ended March 31, 2013, the Company recognized a gain on the sale of KES of approximately $76.8 million compared to $0 for the three months ended March 31, 2014.

Gain on the Settlement of Minority Interest

During the three months ended March 31, 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 three months ended March 31, 2014.

Income (Loss) from Discontinued Operations

Income from discontinued operations for the three months ended March 31, 2014 was $0, compared to income of $1.4 million from discontinued operations for the three months ended March 31, 2013. The increase was primarily attributable to the sale of KES during the year ended September 30, 2013**.**

For the six months ended March 31, 2014 and 2013

Net Sales

Net sales for the six months ended March 31, 2014 were $62.2 million, an increase of $62.2 million over net sales of $0 for the six months ended March 31, 2013. The increase in net sales was attributable to the operations of Faneuil, which were not part of the Company's operations during the six months ended March 31, 2013. Net sales for the period were generated from six verticals with the following contribution levels: Manual Toll Collection, 31.4%; Electronic Toll Collection, 25.8%; Healthcare, 21.0%; Government/Municipal, 11.4%; Utilities, 8.6%; and Commercial, 1.9%.

Cost of Sales

Cost of sales for the six months ended March 31, 2014 was $48.1 million, an increase of $48.1 million over cost of sales of $0 for the six months ended March 31, 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 six months ended March 31, 2013.

Gross Profit

Gross profit for the six months ended March 31, 2014 was $14.1 million, an increase of $14.1 million over gross profit of $0 for the six months ended March 31, 2013. The increase in gross profit was attributable to the operations of Faneuil, which were not part of the Company's operations during the six months ended March 31, 2013. Gross profit as a percentage of sales for the six months ended March 31, 2014 was 23%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended March 31, 2014 were $7.9 million, an increase of $7.6 million over selling, general and administrative expenses of $349,217 for the six months ended March 31, 2013. The increase was primarily attributable to the operations of Faneuil, which were not part of the Company's operations during the six months ended March 31, 2013.

Gain on the Sale of KES

During the six months ended March 31, 2013, the Company recognized a gain on the sale of KES of approximately $76.8 million compared to $0 for the six months ended March 31, 2014.

Gain on the Settlement of Minority Interest

During the six months ended March 31, 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 six months ended March 31, 2014.

Liquidity and Capital Resources – March 31, 2014

The Company recognized net income of $4.9 million for the six months ended March 31, 2014 and generated positive cash flow from operating activities of $4.2 million and used cash from investing activities of $21.4 million, primarily related to the purchase of Faneuil of $19.1 million, and used cash from financing activities of $1.0 million. The Company had an accumulated deficit of $230.3 million and stockholders' equity of $35.4 million at March 31, 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.

On April 16, 2014, ALJ acquired substantially all of the equity interests of Carpets pursuant to a purchase and sale agreement, dated April 7, 2014, by and among ALJ, the seller and Carpets. ALJ paid $5.47 million, including expenses of the transaction, in cash to the seller for all of the equity interests in Carpets. Concurrently with the closing, Carpets was recapitalized in a transaction resulting in ALJ owning 87.94% (basic) or 82.63% (fully diluted) and Mr. Chesin, the Chief Executive Officer of Carpets, owning 12.06% (basic) or 17.37% (fully diluted) of Carpets.

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. 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 March 31, 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 six months ended March 31, 2014, the Company generated $4.2 million from operating activities, primarily attributable to net income of $4.9 million, increases of deferred revenue of $2.3 million and accrued expenses of $1.4 million, and $1.6 million in depreciation and amortization, partially offset by a decrease in accounts receivable of $7.2 million.

Investing Activities

For the six months ended March 31, 2014, the Company used cash from investing activities of $21.4 million, primarily related to the purchase of Faneuil of $19.1 million, and the purchase of equipment of $3.4 million, partially offset by the sale of minority interest in Faneuil of $1.1 million.

Financing Activities

For the six months ended March 31, 2014, the Company used cash from financing activities of $1.0 million related to payments against the Harland Clarke Note.

Principal Commitments

At March 31, 2014, the Company's principal commitments consisted of the following obligations:

	Payments Due by Twelve Month Periods Ending December 31, (in thousands)					
Contractual cash obligations	**Total**	**2014**	**2015**	**2016**	**2017**	**Thereafter**
Note payable – Harland Clarke	24,000	4,000	20,000	---	---	---
Operating leases	6,825	1,752	1,788	1,417	1,246	622
Capital lease obligation	259	249	10	---	---	---
Total contractual cash obligations	$ 31,084	$ 6,001	$21,798	$ 1,417	$ 1,246	$ 622

Subsequent to March 31, 2014, the Company incurred $2.0 million in debt in the form of a note payable as financing for the Carpets acquisition, which is not reflected in the table above.

Off-Balance Sheet Arrangements

The Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at March 31, 2014.

ITEM 5. LEGAL PROCEEDINGS

The Company is a defendant in actions for matters arising out of normal business operations. The Company concluded as of March 31, 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 six months ended March 31, 2014, the Company had one customer that accounted for approximately 38.9% of net sales. Faneuil has long standing relationships with many of its significant customers. However, because Faneuil's customers generally contract with it for specific projects or programs with a finite duration, Faneuil may lose these customers if funding for their program is discontinued, or their projects come to an end 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; and
- transfer or sell our assets.

Faneuil's ability to borrow under the M&T Credit Facility will depend upon its ability to comply with certain covenants and borrowing base requirements. Its ability to meet these covenants and requirements may be affected by events beyond its control and it may not meet these obligations. The failure of Faneuil to comply with these covenants and requirements could result in an event of default under the M&T Credit Facility or Harland Clarke Note that, if not cured or waived, could terminate its ability to borrow further, permit acceleration of the relevant debt (and other indebtedness based on cross default provisions) and permit foreclosure on any collateral granted as security under the M&T Credit Facility or Harland Clarke Note. There can also be no assurance that the lenders will grant waivers on covenant violations, if they occur. Any such event of default would have a material adverse effect on us as Faneuil is our principal asset and cash we receive through our tax sharing payments from Faneuil is our principal 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. Cyber-attacks 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 March 31, 2014. The NOLs do not begin to expire until 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

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

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

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

Our 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 March 31, 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.

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* 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 March 31, 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: May 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 March 31, 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: May 14, 2014

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

Exhibit No. 7

PROMISSORY NOTE

$2,000,000 Date: April 7, 2014

FOR VALUE RECEIVED, ALJ Regional Holdings, Inc., a Delaware corporation ("**Maker**") promises to pay to Libra Securities Holdings, LLC, a California limited liability company ("**Payee**") the principal amount of Two Million Dollars ($2,000,000), together with interest on the unpaid balance at the rate of ten percent (10%) a year from April 7, 2014 to the date of payment in full, on April 6, 2019 (the "**Maturity Date**"). Payments shall be made in lawful currency of the United States at the office of Payee at the address set forth in Section 6(d) below (or such other place as the holder of this note may designate).

1. Prepayments. Maker may prepay this note in full at any time or in part from time to time with interest to the date of payment and without penalty or premium. In connection with each prepayment of principal hereunder, Maker shall also pay all accrued and unpaid interest on the principal amount of the note being repaid.

2. Interest. Interest shall accrue on all amounts unpaid under this Note at an annual rate of ten percent (10%) per year, and shall be payable quarterly in cash, or, at the option of the Maker, may be accrued and compounded quarterly.

3. Origination Fee. Maker promises to pay to Payee simultaneously with the execution of this note a non-refundable origination fee equal to Twenty Thousand U.S. Dollars (U.S. $20,000) (the "**Origination Fee**").

4. Negative Covenants. So long as the note shall remain unpaid, Maker shall not, directly or indirectly, unless the holder shall otherwise consent in writing, (a) declare or pay any dividends, make any distributions of assets or otherwise to its stockholders, or (b) purchase or otherwise acquire for value any of its capital stock now or hereafter outstanding.

5. Events of Default. The following shall constitute Events of Default under this note:

(a) if Maker defaults in the payment of principal or interest on this note (including, but not limited to, any required prepayment);

(b) if Maker defaults in the performance of any of its other obligations under this note and the default continues for ten days after written notice;

(c) if Maker or any Subsidiary makes an assignment for the benefit of creditors or admits in writing its inability to pay its debts generally as they become due; or an order, judgment or decree is entered adjudicating Maker or any Subsidiary (as defined below) bankrupt or insolvent; or any order for relief with respect to Maker or any Subsidiary is entered under the Federal Bankruptcy Code; or Maker or any Subsidiary petitions or applies to any tribunal for the appointment of a custodian, trustee, receiver or liquidator of Maker or any Subsidiary, or of any substantial part of the assets of Maker or any Subsidiary, or commences any proceeding (other than a proceeding for the voluntary liquidation and dissolution of any Subsidiary) relating to Maker or any Subsidiary under any bankruptcy reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction; or any such petition or application is filed, or any such proceeding is commenced, against Maker or any Subsidiary and either (A) Maker or any such Subsidiary by any act indicates its approval thereof, consent thereto or acquiescence therein or (B) such petition, application or proceeding is not dismissed within 60 days;

(d) a judgment in excess of $1.0 million is rendered against Maker or any Subsidiary and, within 60 days after entry thereof, such judgment is not discharged in full or execution thereof stayed pending appeal, or within 60 days after the expiration of any such stay, such judgment is not discharged in full;

(e) Maker or any Subsidiary defaults in the performance of any obligation if the effect of such default is to cause an amount exceeding $1.0 million to become due prior to its stated maturity or to permit the holder or holders of such obligation to cause an amount exceeding $1.0 million to become due prior to its stated maturity; or

(f) Maker or its successors fails to pay in full all principal and accrued but unpaid interest on the note to Payee within 5 business days following a Change of Control (as defined below).

6. Consequences of an Event of Default.

(a) If an Event of Default has occurred and is continuing (other than an Event of Default described in subparagraph 3(d)), Payee may, upon notice to Maker, declare the unpaid balance of the principal of this note and all accrued interest immediately due and payable. If an Event of Default of the type described in subparagraph 3(d) above occurs, the aggregate principal amount of the note (together with all accrued interest thereon and all other amounts due and payable with respect thereto) shall become immediately due and payable without any action on the part of Payee, and Maker shall immediately pay to Payee all amounts due and payable with respect to the note.

(b) If an Event of Default has occurred and continues for a period of 30 days or any other Event of Default has occurred and is continuing, the interest rate on the note shall increase immediately by an increment of 1 percentage point. Thereafter, until such time as no Event of Default exists, the interest rate shall increase automatically at the end of each succeeding 90-day period by an additional increment of 1 percentage point (but in no event shall the interest rate exceed the lesser of 10% or the maximum rate permissible by law). Any increase of the interest rate resulting from the operation of this subparagraph shall terminate as of the close of business on the date on which no Event of Default exists, subject to subsequent increases pursuant to this paragraph.

7. Definitions. For purposes of this note:

(a) "**Change of Control**" means (i) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of Maker and its Subsidiaries, taken as a whole, to any "person" (as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) that does not include Payee or any person controlling, controlled by, or under common control with Payee ("**Affiliate**"); or (ii) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that a "person" (as such term is defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) or related group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended), that does not include Payee or any Affiliate of Payee, owns more than 50% of the total voting power entitled to vote in the election of directors.

(b) "**Person**" means an individual, a partnership, a corporation, a limited liability company, a limited liability, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

(c) "**Subsidiary**" means, with respect to any Person, any corporation, limited liability company, partnership, association or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a limited liability company, partnership, association or other business entity, a majority of the partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that person or a combination thereof. Person or Persons shall be deemed to have a majority ownership interest in a limited liability company, partnership, association or other business entity if such Person or Persons shall be allocated a majority of limited liability company, partnership, association or other business entity gains or losses or shall be or control the managing general partner of such limited liability company, partnership, association or other business entity. As used herein, the terms "Subsidiary" and "Subsidiaries" shall not include Beyond the Wall, Inc.

(d) Expenses of Enforcement. If Payee shall institute any action to enforce collection of this note, there shall become due and payable from Maker, in addition to the unpaid principal amount and accrued interest, all reasonable costs and expenses of that action (including, but not limited to, reasonable attorneys' fees), and Payee shall be entitled to judgment for all such additional amounts.

8. Miscellaneous.

(a) No delay or failure on the part of Payee to exercise any power or right given under this note, including, but not limited to, the right to accelerate the amounts due, shall operate as a waiver of that power or right and no right or remedy of Payee shall be deemed abridged or modified by any course of conduct. Any waiver must be in writing.

(b) Payee shall also have any other rights which Payee may have been afforded under any contract or agreement at any time and any other rights which Payee may have pursuant to applicable law.

(c) Maker waives diligence, presentment, protest, demand for payment, notice of dishonor and all other notices or demands in connection with the delivery, acceptance, performance, default or endorsement of this note other than the notices expressly contemplated by this note.

(d) Any notice or other communication under this note shall be in writing and shall be considered given when delivered personally or sent by facsimile (with a copy by any other means permitted for the giving of notices under this note), one day after being sent by a reputable overnight courier, or four days after being mailed by registered mail, return receipt requested, to the parties at the addresses set forth below (or at such other address as a party may specify by notice similarly given):

if to Payee, to it at:

Libra Securities Holdings, LLC
Attention: Jess Ravich
149 S. Barrington Court, Suite 828
Los Angeles, CA 90049

if to Maker, to it at:

ALJ Regional Holdings, Inc.
Attn: T. Robert Christ
P.O. Box 99418
San Diego, CA 92169
Facsimile: (301) 560-3474

with a copy to

Shearman & Sterling LLP
Attention: Christopher M. Forrester
Five Palo Alto Square, 6th Floor
3000 El Camino Real
Palo Alto, California 94306-2155
Facsimile: (650) 838-3699

(e) This note shall be governed by and construed in accordance with the law of the State of New York applicable to agreements made and to be performed entirely in New York and cannot be changed orally.

(f) The courts of the State of New York in New York County and the United States District Court for the Southern District of New York shall have exclusive jurisdiction over the parties (and the subject matter) with respect to any dispute or controversy arising under or in connection with this note. A summons or complaint in any such action or proceeding may be served by registered mail in accordance with paragraph 6(d) of this note.

IN WITNESS WHEREOF, the undersigned has executed this Promissory Note as of the day and year first above written:

ALJ Regional Holdings, Inc.

By:______________________
Name: T. ROBERT CHRIST
Title: CFO