# ALJ REGIONAL HOLDINGS, INC.

**244 Madison Avenue, PMB 358**
**New York, NY 10016**
**(888) 486-7775**

**Annual Report for the**
**Fiscal Year Ended**
**September 30, 2014**

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**ALJ REGIONAL HOLDINGS, INC.**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

The statements included in this Annual Report for the twelve months ended September 30, 2014 (the "Report") regarding future financial performance, results and conditions and other statements that are not historical facts, including, among others, the statements regarding competition, the Company's intention to retain earnings for use in the Company's business operations, 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," "projects," "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.

## PART A

## GENERAL COMPANY INFORMATION

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, 2007. The Company's name was changed to ALJ Regional Holdings, Inc. on October 23, 2007.

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

The Company's investor relations contact is Rob Christ, the Chief Financial Officer of the Company. Mr. Christ can be reached at (888) 486-7775.

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

American Stock Transfer & Trust Company, LLC is registered under the Securities and Exchange Act of 1934. The regulatory authority of the transfer agent is the SEC.

**PART B**

**SHARE STRUCTURE AND ISSUANCE HISTORY**

The Company has only two classes of securities, common stock (par value $0.01) (CUSIP Number: 001627108) and preferred stock (par value $0.01), the details of which are disclosed in the table below.

| | Common Stock Period End Date | | | Preferred Stock Period End Date | | |
|---|---|---|---|---|---|---|
| | September 30, 2014 | September 30, 2013 | September 30, 2012 | September 30, 2014 | September 30, 2013 | September 30, 2012 |
| **Number of Shares Authorized** | 100,000,000 | 100,000,000 | 100,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| **Number of Shares Outstanding** | 31,278,660 | 26,744,913 | 57,246,598 | 0 | 0 | 0 |

The Company used $25,200,000 to repurchase 30,000,000 shares of its outstanding common stock at $0.84 per share under a modified "Dutch auction" tender offer which closed on February 12, 2013 (the "Tender Offer"). The shares repurchased in the Tender Offer were immediately retired.

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 September 30, 2014, there were 159 holders of record of the Company's common stock.

Since June 24, 2005, the Company's common stock has traded on the "Pink Sheets." The Company's common stock was traded under the symbol "YSTM.PK" from June 24, 2005 through December 7, 2006. On December 8, 2006, the Company's common stock began trading under the symbol "ALJJ.PK." Prior to June 24, 2005, the Company's common stock traded on the OTC Bulletin Board under the symbol "YSTM." The following table sets forth the high and low closing bid prices for the common stock as provided by Pinksheets.com. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

| | | High | Low |
|---|---|---|---|
| Fiscal 2014 | | | |
| | First Quarter 12/31/13 | 1.68 | 0.82 |
| | Second Quarter 3/31/14 | 1.80 | 1.55 |
| | Third Quarter 6/30/14 | 2.65 | 1.70 |
| | Fourth Quarter 9/30/14 | 3.75 | 2.33 |
| Fiscal 2013 | | | |
| | First Quarter 12/31/12 | 0.77 | 0.36 |
| | Second Quarter 3/31/13 | 0.84 | 0.77 |
| | Third Quarter 6/30/13 | 0.84 | 0.78 |
| | Fourth Quarter 9/30/13 | 0.85 | 0.78 |

To date, the Company has not declared or paid any cash dividends on its common stock. The Board of Directors of the Company (the "Board") does not intend to declare any dividends in the foreseeable future.

On August 17, 2014, the Company announced that the Board had authorized the repurchase of shares of the Company's issued and outstanding common stock, for a cost not to exceed $4.00 per share. As of September 30, 2014, the Company used $785,189 to repurchase 220,627 shares at an average share price of $3.55 per share. These shares are currently held as treasury stock.

On June 1, 2012, the Company announced that the Board had authorized the repurchase of up to 2,000,000 shares of the Company's issued and outstanding common stock, for a cost not to exceed $0.50 per share. The share repurchase program terminated on May 31, 2014. As of September 30, 2013, the Company repurchased 195,400 shares through the repurchase program.

As of September 30, 2013, the Company retired 30,777,900 shares of its common stock held in treasury, including the immediate retirement of the 30,000,000 shares of its common stock that it repurchased on February 12, 2013 under the Tender Offer.

**Stockholder Rights Plan**

On May 13, 2009, ALJ adopted a stockholder rights plan (the "Rights Plan") designed to preserve the value of certain tax assets primarily associated with its 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").

At September 30, 2014, ALJ had approximately $164 million in NOLs and the use of such losses to offset federal income tax would be limited if ALJ were to experience an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of ALJ's stock by value increase their collective ownership of the aggregate amount of ALJ'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, ALJ 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% or more of ALJ's outstanding stock (an "Acquiring Person") without the approval of the Board would be subject to significant dilution of its holdings. Any existing stockholder holding 4.9% or more of ALJ's stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of ALJ; provided, however, that existing stockholders actually known to ALJ to hold 4.9% or more of its stock as of April 30, 2009 will be permitted to purchase up to an additional 5% of ALJ'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 ALJ'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. The Rights Plan was approved by ALJ's stockholders at the annual meeting of stockholders on June 4, 2009.

In addition to the Rights Plan, ALJ also adopted an amendment to its certificate of incorporation that imposes restrictions on transfer of stock that may result in an ownership change under Section 382.

The Board waived the Rights Plan and certificate of incorporation restrictions on transfer with respect to the issuance of 3,000,000 shares of ALJ's common stock to Harland Clarke on October 18, 2013, in connection with the acquisition of Faneuil (defined below), and the Board determined that Harland Clarke was not an Acquiring Person under the Rights Plan as a result of the issuance of such shares.

## PART C

## BUSINESS INFORMATION

### CURRENT BUSINESS ACTIVITIES

ALJ Regional Holdings, Inc. is the parent company of Faneuil, Inc. ("Faneuil"), a provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries. ALJ is also the parent company of Floors-N-More, LLC, dba Carpets N' More ("Carpets"), a provider of multiple finishing products for commercial, retail and home builder markets including all types of flooring, countertops, cabinets, window coverings and garage/closet organizers, with 5 retail locations in Las Vegas, Nevada.

**Faneuil Acquisition**

On October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil, Inc. from Harland Clarke Holdings Corp. ("Harland Clarke"), a wholly owned subsidiary of MacAndrews & Forbes Holdings Inc., 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. The aggregate consideration for the acquisition of all of Faneuil's outstanding stock was $53 million, consisting of $25 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 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. 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, as of the date of this Report, ALJ, Ms. Van Buren and Ms. Leherr respectively hold 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.

The Harland Clarke Note provided for a two-year maturity with interest in the first year at five percent (5%) and interest in the second year at seven and one half percent (7.5%). The Harland Clarke Note had mandatory 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 were secured by a pledge of ALJ's stock of Faneuil and the stock of Faneuil's subsidiaries, subject to certain limitations. This note was refinanced on September 30, 2014 with M&T Bank as described in greater detail below.

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 unwound certain affiliate arrangements between Faneuil, on the one hand, and Harland Clarke and Scantron, on the other, and provided for certain transition services to be provided by Scantron to Faneuil.

Following its acquisition by ALJ, Faneuil continued under the leadership of Ms. Van Buren and the remainder of its management team. 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 and Michael Borofsky, a representative of Harland Clarke, was also appointed to the Board as a Class III director.

On September 30, 2014, Faneuil refinanced its $25 million Harland Clarke Note and its $5 million senior credit facility (the "Senior Credit Facility") with M&T Bank, Inc. ("M&T") (discussed below). Faneuil had $21.6 million inclusive of accrued interest remaining on the Harland Clarke Note, and at closing paid down $2.6 million from cash on hand, leaving $19 million, which was refinanced under a term loan from M&T ("Term Loan"). The $19 million term loan amortizes over a period of 60 months at $316,667 per month plus accrued interest at a rate of Libor plus 3.75%, declining to Libor plus 2.50% upon obtaining certain ratios. The Harland Clarke Note was scheduled to accrue interest over the next twelve months at a rate of 7.5% and was due in full in October 2015. Faneuil also refinanced its $5 million Senior Credit Facility ("Revolver" and as refinanced and together with the Term Loan, the "M&T Credit Facility") with M&T, which, as refinanced, has a two-year

term and accrues interest at a rate of Libor plus 2.5%. 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 maximum dollar limitation equal to the lesser of the borrowing base and $5,000,000. 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 wholly owned subsidiary of Faneuil.

On October 18, 2013, the board of directors of Faneuil adopted the Faneuil, Inc. 2013 Stock Incentive Plan (the "Plan"). The maximum aggregate number of shares of Faneuil's common stock which may be issued pursuant to awards under the Plan is 80,000 shares.

Also on October 18, 2013, the board of directors of Faneuil granted Ms. Van Buren an option to purchase 60,000 shares of Faneuil's common stock under the Plan, which option is described under "Certain Relationships and Related Transactions" below.

**Floors N' More Acquisition**

Effective April 1, 2014, ALJ acquired all of the equity interests of Floors N' More, dba Carpets N' More ("Carpets") pursuant to a purchase and sale agreement, dated April 14, 2014, by and among ALJ, the seller and Carpets. ALJ paid $5.25 million in cash to the seller for all of the equity interests in Carpets. Concurrent with the closing, ALJ invested $240,000 in Carpets for a total ownership percentage of 100.00% (basic) or 93.19% (fully diluted) and Mr. Chesin, the Chief Executive Officer of Carpets, received an ownership percentage of 0.00% (basic) or 6.81% (fully diluted) of Carpets by way of the issuance of 40,000 Equity Award Units, 10,000 of which vest on each of December 31, 2014, 2015, 2016 and 2017. On July 1, 2014, each of the Limited Liability Company Operating Agreement and the Members' Agreement of Carpets were amended and restated to provide Mr. Chesin with an allocation of 750,000 Class B Preferred Units and 75,000 Common Units. These interests represent an aggregate of 12% (basic) or 17% (fully diluted) of the aggregate equity interests in Carpets. After giving effect to the above issuances, Carpets, on a fully diluted basis, is owned 83% by ALJ and 17% by Mr. Chesin.

**Sale of KES and Tender Offer**

On February 5, 2013, ALJ completed the sale of KES Acquisition Company ("KES"), ALJ's former majority owned operating subsidiary that owned and operated a steel mini-mill in Ashland, Kentucky, to Optima Specialty Steel, Inc. ("Optima") for $114.4 million in cash pursuant to the merger agreement dated November 18, 2012. The sale 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.

As a result of the sale of KES, ALJ retired all outstanding loans of KES and sold 100% of the stock of KES. This included (i) $10.9 million related to the asset-based revolving credit line and term loan (the "Credit Facility") and related accrued interest pursuant to the Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated September 30, 2011, between KES and PNC Bank, National Association, (ii) $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., (iii) $11.9 million related to the Series A Preferred Stock of KES and accrued dividends thereon and (iv) $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).

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, were terminated: (i) the Management Agreement with Pinnacle Steel, LLC ("Pinnacle"), (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.

On February 12, 2013, ALJ repurchased 30,000,000 shares of its common stock, approximately 50% of its outstanding common stock as of such date, at $0.84 per share for $25.2 million in the Tender Offer. ALJ used approximately 50% of its cash immediately following the closing of the sale of KES to acquire the shares. The Tender Offer was structured as a modified "Dutch auction" tender offer for up to 30,000,000 shares of ALJ's common stock at a price per share not greater than $0.86 and not less than $0.84. The Tender Offer expired on February 8, 2013. The Tender Offer was conditioned upon the closing of the sale of KES and closed at $0.84 per share on February 12, 2013.

**CURRENT BUSINESS ACTIVITIES**

The Company's current business is conducted through its majority-owned subsidiaries, Faneuil, which the Company acquired on October 18, 2013, and Carpets, which the Company acquired on April 1, 2014.

Faneuil is a leading provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries. Faneuil provides multi-channel contact center solutions for an extensive client portfolio focusing on high profile, highly regulated clients, managing more than 425 million customer interactions each year. Utilizing advanced applications and a workforce of approximately 3,000 service professionals, Faneuil delivers broad outsourcing support, ranging from customer care centers, fulfillment operations and IT services, to manual and electronic toll collection, toll violation processing, health insurance enrollment assistance and forms processing.

Carpets is a large flooring retailer based in Las Vegas, Nevada, which provides multiple finishing products for commercial, retail and home builder markets including all types of flooring, countertops, cabinets, window coverings and garage/closet organizers, with 5 retail locations in Las Vegas.

**Products and Services**

***Faneuil***
*Contact Center Operations*

Faneuil operates multi-channel customer care centers ("Contact Centers") staffed by 50 to 500 employees in several states. Contact Center clients include several toll authorities, two health benefit exchanges, a multi-state utility, municipalities, an agency that operates two major airports serving the Washington, D.C. area and several other government and commercial entities.

*Toll Collection Services*

Faneuil has been retained by many state and municipal transportation authorities to conduct manual and electronic toll operations. Faneuil's role in outsourced operations of electronic tolling extends beyond the traditional call center capabilities, with expertise in violation processing, violation court support, fulfillment, front counter support and transponder sales and inventory. Faneuil's complement of automated services range from turn-key operations in which Faneuil assumes complete responsibility for every aspect, including management, staffing, systems, customer care, and transponder sales and distribution, to targeted applications in which Faneuil supplies specific components to supplement a client's own operation. Enforcement is also a key component of Faneuil's toll operations, and currently process more than 2 million violations each month. As the nation's largest outsourced provider of manual toll collection, Faneuil deploys over 1,800 specialists across multiple states providing face-to-face customer service.

*Healthcare*

In January 2013, Faneuil was chosen to support the Washington State Health Benefit Exchange by providing contact center services and CRM development. The operation was opened on September 3, 2013 and includes a dedicated operation in Spokane, Washington and overflow operations in a multi-client site in Virginia. In October 2013, the State of Tennessee announced the selection of Faneuil to operate its TennCare member services center.

***Carpets***
*Floor Coverings*

Carpets provides various floor coverings to home builders, commercial and retail customers including carpet, hardwood, laminate, tile, ceramic, porcelain, natural stone, vinyl plan, vinyl tile, area rugs and specialty flooring including bamboo, leather, cork and large format tile.

*Countertops and Surrounds*

Carpets provides countertop and surrounds, primarily for bathrooms and kitchens, including natural stone, granite, ceramic, porcelain, solid surface, quartz and piedrafina.

*Cabinets and Other Products*

Carpets provides kitchen, bathroom, and garage cabinets; closet and closet organizers; and window coverings including blinds, shutters, and shades.

**Sales, Marketing and Product Support**

***Faneuil***
Faneuil acquires new clients and contracts primarily by responding to requests for proposals issued by commercial and government entities and participating in other competitive bidding opportunities that align with its core proficiencies and strategic goals. Faneuil also partners with other businesses whose products and services complement their own, responding as a team or in a contractor-subcontractor capacity to selected solicitations that present advantageous business opportunities for both companies. Additionally, approximately 80 percent of Faneuil's current clients have expanded their business relationships with Faneuil since initial contract inception. Faneuil's business development representatives also network nationwide to promote Faneuil's outsourced business services to prospective clients.

***Carpets***
Carpets has three divisions for which they are awarded contracts: new home building, commercial and retail. Carpets bids directly with home builders on residential developments and is awarded flooring, countertops and surrounds and/or cabinet contracts. These contracts involve installing the base level product in each of the residential homes within the awarded development and, when requested, providing upgraded materials and services to the base level products. Carpets bids on commercial work and is awarded contracts generally on a fixed price basis. These projects generally involve high-rise condos, office buildings, tenant improvements, off-strip casinos and general contractors. Carpets has 5 retail locations in which they sell their products and services.

**Clients**

***Faneuil***
Faneuil's client portfolio includes both government and commercial entities nationwide, including several toll authorities, state agencies, municipalities, a publicly owned utility, two health benefit exchanges, an agency that operates the major airports serving the Washington, D.C. area and several other public and private entities.

***Carpets***
Carpets' customers are divided into the three business units: home builders, commercial and retail. Carpets home building customers include some of the largest home builders in the United States, along with local builders in and around Las Vegas, Nevada. Their commercial customers include general contractors, real estate investment firms/funds and commercial entities such as casinos and other companies looking to improve their office space. Carpets' retail customers include the general public interested in making home improvements.

**Client Concentration**

***Faneuil***
Historically, and perhaps in the future, a significant portion of Faneuil's consolidated revenue for one year, or over a period of several consecutive years, has been contributed by one or by a limited number of their large clients. For the year ending September 30, 2014, revenue from two customers accounted for 37.4% and 16.6% of Faneuil's total net revenues, of which $6.7 million and $2.8 million were included in accounts receivable as of September 30, 2014.

***Carpets***
Carpets has several large home builders as customers. Most individual home builders use Carpets for multiple sub-divisions. Some of these home builders contribute a significant portion of Carpet's revenue in one year or over a period of several consecutive years. For the year ended September 30, 2014, Carpets received 72.6% of its revenue from 4 home builders which accounted for 27.9%, 18.9%, 15.1% and 10.7% of its total revenue, respectively, of which $1.2 million, $690,066, $532,375 and $503,497, respectively were included in accounts receivable as of September 30, 2014.

**Vendor Concentration**

***Carpets***
For the year ended September 30, 2014, Carpets had 3 suppliers that accounted for approximately 26.0%, 16.6% and 13.2% of inventory purchases, of which approximately $2.2 million, $1.4 million and $1.1 million, respectively, were included in accounts payable at September 30, 2014.

**Competition**

***Faneuil***
Faneuil's primary competitors are other large providers of toll services, such as Affiliated Computer Services, Inc. ("ACS") and TransCore, Inc., as well as contact center operators such as ACS, Maximus and Convergys Corporation. If Faneuil cannot compete effectively to win new business and retain existing clients, its operating results will be negatively affected. To remain competitive, Faneuil must continuously implement new technologies, expand its portfolio of outsourced services and may have to make occasional strategic adjustments to its pricing for its services.

***Carpets***
Carpets' primary competitors are other flooring, countertop and surround and cabinet providers in the Las Vegas area, such as Interior Specialist and Del Grosso, as well as large box stores like Lowes and Home Depot. They also compete with discounted flooring companies like Cloud Carpet, Carpets Galore and RC Willey.

**Employees**

As of September 30, 2014, ALJ had two employees, its Executive Chairman and its Chief Financial Officer, performing services dedicated primarily to general corporate and administrative matters. As of September 30, 2014, Faneuil had approximately 3,000 employees and Carpets had approximately 200 employees. None of the employees of ALJ, Faneuil or Carpets are represented by a labor union.

**Governmental Regulation**

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. These 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 amongst 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. This 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.

**Properties**

ALJ's corporate mailing address is 244 Madison Avenue, PMB 358, New York, NY 10016. Faneuil's headquarters are in Hampton, VA and its principal properties are as follows:

| Location | Use | Approximate Floor Space (Square Feet) | Leased/Owned Status |
|---|---|---|---|
| Atlantic City, NJ | Administrative office | 1,500 | Leased |
| Boca Raton, FL | Florida corporate office | 2,165 | Leased |
| Clifton Forge, VA | Contact center | 15,620 | Leased |
| El Paso, TX | Administrative office | 900 | Leased |
| Fort Lauderdale, FL | Sales office | 1,720 | Leased |
| Gloucester Point, VA | Walk-in retail location | 1,500 | Leased |
| Hampton, VA | Corporate headquarters | 12,363 | Leased |
| Herndon, VA | Walk-in retail location | 3,300 | Leased |
| Jupiter, FL | Sales office | 1,178 | Leased |
| Lakeland, FL | Administrative office | 1,040 | Leased |
| Lawrence, KS | Administration | 19,000 | Leased |
| Martinsville, VA | Contact center | 12,309 | Leased |
| Orlando, FL | Administrative office | 12,420 | Leased |
| Orlando, FL | Contact center | 17,842 | Leased |
| Richmond, VA | Walk-in retail location | 2,000 | Leased |
| South Boston, VA | Contact center | 10,761 | Leased |
| Tallahassee, FL | Administrative office | 1,500 | Leased |
| Tampa, FL | Administrative office | 1,453 | Leased |
| Vienna, VA | Administrative office | 681 | Leased |
| Portsmouth, VA | Walk-in retail and contact center | 8,325 | Leased |
| Spokane, WA | Contact center | 10,748 | Leased |

Carpets' principal properties are as follows:

| Location | Use | Approximate Floor Space (Square Feet) | Leased/Owned Status |
|---|---|---|---|
| Las Vegas, NV | Corporate Office/Retail | 35,355 | Leased |
| Las Vegas, NV | Retail – Builder Design Center | 18,279 | Leased |
| Henderson, NV | Retail Location – Eastern Store | 5,321 | Leased |
| Las Vegas, NV | Retail Location – I-95 and Craig | 8,600 | Leased |
| Las Vegas, NV | Retail Location – Grand Canyon | 4,480 | Leased |
| Las Vegas, NV | Granite Shop | 15,750 | Leased |

**Legal Proceedings**

Faneuil and Carpets are defendants in actions for matters arising out of normal business operations. Faneuil and Carpets have concluded as of September 30, 2014 that no such proceeding then pending will have a material adverse effect on their respective consolidated balance sheets.

**Discontinued Operations**

On February 5, 2013, ALJ completed the sale of KES, ALJ's former majority owned operating subsidiary that owned and operated a steel mini-mill in Ashland, Kentucky, to Optima for $114.4 million in cash pursuant to the merger agreement dated November 18, 2012. The sale 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. As a result, KES is now being reported as a Discontinued Operation on ALJ's financial statements.

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

As a result of the sale of KES, ALJ retired all outstanding loans of KES and sold 100% of the stock of KES. This included $10.9 million related to a credit facility and related accrued interest, $20.8 million related to the 8% Subordinated Loans and related accrued interest (not including proceeds paid to ALJ as a holder of 8% Subordinated Loans), $11.9 million related to the Series A Preferred Stock of KES and accrued dividends thereon 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).

## 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 facing ALJ. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also 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 state 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 twelve months ended September 30, 2014, the Company had one customer that accounted for approximately 37.4% of net revenue. Faneuil has long standing relationships with many of its significant customers. However, because Faneuil's customers generally contract for specific projects or programs with a finite duration, Faneuil may lose these customers if funding for their respective programs are discontinued, or if their projects come to an end and the contracts are 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, reduction in volumes and services thereunder for reasons including, but not limited to, 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 with respect to understanding its clients' needs and delivering solutions 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, 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. 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 with its customers 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 with its customers. 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 expected profit or result in a loss on a customer contract 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 guaranteed 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. At times they 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 costs. 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 any 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, 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 consequentially, 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. These 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 amongst 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.

**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. 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/commercial remodeling or new construction activity could have a material adverse effect on the Company's business and results of operations.

**Carpets faces intense competition in the floor covering industry that could decrease demand for their products or force them to lower prices, which could have a material adverse effect on our business.**

The floor covering industry is highly competitive. Carpets competes 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, they face growing competition from online and multichannel retailers as its 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 can also 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 effectively manage 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 the quality of our installers. If we fail to effectively manage these processes 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**

**Our ability to engage in some business transactions may be limited by the terms of our debt.**

The various financing arrangements with M&T Bank contain affirmative, negative a financial covenants restricting ALJ, Faneuil and Carpets. Specifically, the M&T facilities include covenants restricting ALJ's, Faneuil's and Carpet's ability to:

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

ALJ's, Faneuil's and Carpet's respective ability to borrow under the M&T arrangements depend upon their respective abilities to comply with certain covenants and borrowing base requirements. Our and our subsidiaries' abilities to meet these covenants and requirements may be affected by events beyond our control and we or they may not meet these obligations. The failure of any of ALJ, Faneuil or Carpets to comply with these covenants and requirements could result in an event of default under one of the arrangements with M&T that, if not cured or waived, could terminate such party's 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 arrangements with M&T. Further, Faneuil has provided a guarantee to M&T with respect to the indebtedness of ALJ and Carpets and the obligations of ALJ and Carpets to M&T are secured by liens on Faneuil's assets. Accordingly, any default by ALJ or Faneuil could also result in material adverse effect on Faneuil as M&T may seek to recover from Faneuil or against its assets. There can also be no assurance that the lenders will grant waivers on covenant violations, if they occur. Any such event of default would have a material adverse effect on us, as Faneuil is a significant asset and the cash that we receive through our tax sharing payments from Faneuil is a significant source of cash with which we pay our operating expenses.

**Account data breaches involving stored data or the 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 and Carpets, 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 and Carpet's ability to make payments on their respective indebtedness and to fund any future capital expenditures, will depend on our ability and the ability of Faneuil and Carpets, respectively, to generate cash in the future. To a certain extent, this is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that Faneuil or Carpets will generate sufficient cash flow from operations, or that future borrowings will be available to Faneuil or Carpets in amounts sufficient to enable them to pay any of their respective indebtedness, or to fund their other liquidity needs. We cannot assure you that we will be able to refinance any of our 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 NOLs and built in losses under Section 382 of 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 $164 million of (pre-tax) NOLs as of September 30, 2014. The NOLs begin to expire in 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs would have a negative impact on our financial position and results of operations.

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

In May 2009, we announced that our Board adopted 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, the stock market has experienced extreme price and volume fluctuations in recent years. This volatility has had a significant impact 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 on 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 September 30, 2014, the Company had approximately $164 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 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.

## PART D

## MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

**Directors' and Officers' Biographies and Board Structure.**

The following table sets forth certain information regarding the Company's directors and executive officers.

| Name | Age | Position |
|---|---|---|
| Jess M. Ravich | 57 | Executive Chairman, Class III Director |
| T. Robert Christ | 45 | Chief Financial Officer |
| Hal G. Byer | 57 | Class II Director |
| Robert Scott Fritz | 57 | Class I Director |
| Rae Ravich | 23 | Class II Director |
| John Scheel | 60 | Class I Director |
| Anna Van Buren | 56 | Class III Director |
| Michael Borofsky | 42 | Class III Director |

The Company's Board of Directors is divided into three classes, with one class being elected each year and members of each class holding office for a three-year term. All of the directors serve until their terms expire and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal.

In June 2014, the Company re-elected Hal Byer and elected Rae Ravich as Class II directors with terms expiring in 2017. The Class I and Class III directors' terms expire in 2016 and 2015, respectively.

The Board of Directors does not have separate audit, compensation or nominating committees.

The following is a brief summary of the backgrounds of the Company's directors and executive officers.

**Jess M. Ravich**. Mr. Ravich has served as a director of the Company since June 26, 2006 and the Chairman of the Board since August 31, 2006 and has served as the Executive Chairman and senior executive officer of the Company since February 20, 2013. Mr. Ravich joined The TCW Group as Group Managing Director in December 2012. Prior to that, Mr. Ravich was Managing Director at Houlihan Lokey since December 2009. Prior to that, Mr. Ravich was Chairman and Chief Executive Officer of Libra Securities, LLC ("Libra Securities"), a Los Angeles-based investment banking firm that focused on capital raising and financial advisory services for middle market corporate clients and the sales and trading of debt and equity securities for institutional investors. Prior to founding Libra Securities in 1991, Mr. Ravich was an Executive Vice President at Jefferies & Co., Inc. and a Senior Vice President at Drexel Burnham Lambert. Mr. Ravich has served on the board of directors of Cherokee Inc. (Nasdaq GS: CHKE) since May 1995. Mr. Ravich has also served as Chairman of the board of directors of Cherokee Inc. since January 2011. Mr. Ravich has also served on the board of directors of A-Mark International since 2014. In addition to his professional responsibilities, Mr. Ravich has also served on the Undergraduate Executive Board of the Wharton School and the Board of Trustees of the Archer School for Girls. Mr. Ravich has both a B.S and M.S. from the Wharton School and a J.D. from Harvard University.

**T. Robert Christ**. Mr. Christ has served as the Chief Financial Officer and Secretary of the Company since July 2008. Mr. Christ also serves as Executive Vice President for Aristotle International Inc., a political software company and age and identity verification company ("Aristotle"). Mr. Christ was previously Chief Financial Officer for Electronic Recyclers International, Inc., a nationwide recycler of e-waste. From 1999 to 2006, Mr. Christ served as Chief Operating Officer and Chief Financial Officer for Aristotle. From 1997 to 1999, Mr. Christ served as Chief Financial Officer for Pulsar Data Systems, a government contractor that merged with Litronic Inc. and went public in 1999. From 1994 to 1997, Mr. Christ served as controller for the Centech Group Inc., a government contractor, and from 1991 to 1993, Mr. Christ held various positions with Rubino and McGeehin, Chtd. a public accounting firm. Mr. Christ holds a B.B.A. degree in Accounting from James Madison University and passed the C.P.A. exam in 1991.

**Hal G. Byer**. Mr. Byer has served as a director of the Company since January 30, 2003. Mr. Byer joined Houlihan Lokey as a Senior Vice President in their Financial Sponsors Coverage Group in December 2009. From May 2001 to November 2009,

Mr. Byer was a Senior Vice President of Libra Securities, a broker-dealer registered with the Securities and Exchange Commission and an NASD member. From 1995 to 2003, Mr. Byer was Chief Executive Officer of Byer Distributing Co., a snack food distribution company. From 2000 to 2003, Mr. Byer was also the Chief Operating Officer of eGreatcause.com, an internet start-up involved in fundraising for charitable and non-profit organizations that is no longer active.

**Robert Scott Fritz**. Mr. Fritz has served as a director of the Company since January 30, 2003. Since May 2002, Mr. Fritz has served as the President of Robert Fritz and Sons Sales Company, a food broker and paper distributor that he owns in New Jersey. Mr. Fritz holds a B.S. in Business from Fairleigh Dickinson University.

**Rae Ravich.** Ms. Ravich is a Financial Analyst at Houlihan Lokey, which she joined in July 2013. Prior to joining Houlihan Lokey, Ms. Ravich was a Healthcare Consultant at the University of Pennsylvania Comparative Healthcare in India during 2012. Ms. Ravich has dual B.S. degrees from the Wharton School and the Nursing School at the University of Pennsylvania.

**John Scheel**. Mr. Scheel has served as a director of the Company since September 13, 2006. From August 31, 2006 to February 20, 2013, Mr. Scheel was the President and Chief Executive Officer of the Company. Mr. Scheel is a principal of and also currently serves as the Chief Operating Officer of Pinnacle Steel, and pursuant to the Management Agreement between KES and Pinnacle, he served as plant manager of KES' steel mini-mill in Ashland, Kentucky (the "Mill") and managed the operations of KES on our behalf from January 2004 until its sale to Optima on February 5, 2013. Following such sale, Mr. Scheel has continued to manage the Mill as its general manager. Prior to joining Pinnacle, Mr. Scheel held various positions of increased responsibility at AK Steel, Nucor Corporation and Birmingham Steel Management. Mr. Scheel holds both B.S. and M.S. degrees in Metallurgical Engineering from Purdue University and a Master of Business Administration in Finance and International Business from Xavier University.

**Anna Van Buren**. Ms. Van Buren was appointed President and Chief Executive Officer of Faneuil, in April 2009, after previously serving as President and Chief Operating Officer from 2007 to 2009, as Vice President and Managing Director of Faneuil's Government Services Division from 2005 to 2007, and as its Vice President of Business Development from 2004 to 2005. Prior to her association with Faneuil, Ms. Van Buren founded Capital Initiatives, a consulting service for clients seeking visibility among federal lawmakers with the objective of encouraging legislative action, and operated numerous government services and marketing companies. Ms. Van Buren has served in leadership roles for many civic and business organizations including chairmanship of the United Way of the Virginia Peninsula, the Peninsula Chamber of Commerce and the NASA Aeronautics Support Team. She is the recipient of numerous awards including the Women in Business Achievement Award by Inside Business Magazine, the Presidential Citizenship Award from Hampton University and the NCCJ Humanitarian Award. Ms. Van Buren holds a degree from Hollins University and the University of Virginia Executive School.

**Michael Borofsky**. Mr. Borofsky is Senior Vice President of MacAndrews & Forbes. Prior to joining MacAndrews & Forbes in 2003, Mr. Borofsky was with the law firm of Skadden, Arps, Slate, Meagher & Flom LLP, where he specialized in mergers & acquisitions, and before that he was an analyst in the treasury group of Goldman Sachs Group, Inc. Mr. Borofsky has a B.A. from Yale University and a J.D. from Columbia University School of Law.

During the last five years, none of the Company's directors or executive officers has been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities or banking activities;

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended or vacated; or

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

Jess Ravich is the father of Rae Ravich.

**Officer's Compensation**

The following table sets forth the total compensation paid or accrued by the Company to the named executive officers for services rendered during the last three fiscal years ended September 30, 2014. No other executive officers received total annual compensation exceeding $100,000 during such fiscal years.

| | | Annual Compensation | | Long-Term Compensation | |
|---|---|---|---|---|---|
| | Year Ended September 30, | Salary | Bonus | Securities Underlying Stock Awards | All Other Compensation |
| Jess Ravich (1) | 2014 | $ 0 | $ 0 | 68,669 | $ 0 |
| Executive Chairman | 2013 | $ 0 | $ 0 | 1,015,243 | $ 52,500 |
| | 2012 | $ 0 | $ 0 | 0 | $ 25,000 |
| John Scheel (2) | 2014 | $ 0 | $ 0 | 15,021 | $ 0 |
| Chief Executive Officer, Director | 2013 | $ 23,570 | $ 0 | 15,243 | $ 12,500 |
| | 2012 | $ 60,000 | $ 0 | 0 | $ 25,000 |
| T. Robert Christ (3) | 2014 | $ 60,000 | $ 75,000 | 100,000 | $ 0 |
| Chief Financial Officer and Secretary | 2013 | $ 60,000 | $ 0 | 0 | $ 0 |
| | 2012 | $ 60,000 | $ 0 | 0 | $ 0 |

(1) Mr. Ravich has served as the Executive Chairman since February 20, 2013. In the year ended September 30, 2014, Mr. Ravich received $125,000 in compensation, of which he elected to take 100% as stock compensation resulting in 53,648 shares valued at $2.33 per share. Mr. Ravich allowed for his annual salary for the year ended September 30, 2013, to be donated on behalf of ALJ to a charity in the amount of $50,000. Mr. Ravich received $45,664, $25,000, and $25,000 as director compensation for each of the years ended September 30, 2014, 2013 and 2012, of which all $25,000 was paid in cash for 2013 and $12,500 was paid in cash for 2012. In the year ended September 30, 2014, Mr. Ravich received 100% of his director compensation in shares of restricted stock valued at $2.33 per share. In the year ended September 30, 2013, Mr. Ravich received 50% of his director compensation in shares of restricted stock valued at the fair market value on the date of grant. In the year ended September 30, 2013, Mr. Ravich also received a stock option to purchase 1,000,000 shares of ALJ at $1.00 per share for services to ALJ in connection with the Faneuil acquisition and a cash payment in the amount of $40,000 as reimbursement of personal tax liabilities incurred in connection with the foregiong option award.

(2) Mr. Scheel served as President and Chief Executive Officer from August 31, 2006 to February 20, 2013. Mr. Scheel received $45,664, $25,000 and $12,500 as director compensation for each of 2014, 2013 and 2012, of which all $25,000 was paid in cash for 2012 and $12,500 was paid in cash for 2013. In the year ended September 30, 2014, Mr. Scheel received 100% of his director compensation in shares of restricted stock valued at $2.33 per share. In the year ended September 30, 2012, Mr. Scheel received 50% of his director compensation in shares of restricted stock valued at the fair market value on the date of grant. Mr. Scheel's annual salary was $60,000. Mr. Scheel also received compensation from Pinnacle, which managed the Mill and of which he is a principal for 2013 and 2012. For the twelve months ended September 30, 2013 and 2012, Pinnacle's management fees were $5,275,000 and $2,405,096, respectively. The September 30, 2013 Pinnacle management fee included a $5.1 million termination fee.

**(**3) For the years ended September 30, 2014, 2013 and 2012, Mr. Christ's annual salary was $60,000. In the year ended September 30, 2014, Mr. Christ received a bonus of $75,000 and 100,000 stock options that vest over a 3 year period.

**Director Compensation**

Pursuant to the director compensation program adopted in July 2014, each member of the Board receives annual compensation of $35,000 to be made up of either cash, restricted common stock or a combination of both, at the director's election. For 2014, an implied value of $2.33 per share was used for purposes of calculating the number of shares of restricted stock to be issued. The shares were granted on July 21, 2014, and at the time had a fair market value of $3.04 per share.

In 2013 and 2012, pursuant to the director compensation program adopted in June 2008, each member of the Board received annual compensation of $25,000, 50% of which was paid in cash and 50% of which was paid in shares of restricted stock valued at the fair market value on the date of grant. Directors were also reimbursed for any out-of-pocket expenses they incurred in the performance of their responsibilities for us. For the 12 month service period ended June 2013, pursuant to a one-time modification of the 2008 director compensation program approved at the July 27, 2012 board meeting, directors received their entire $25,000 of director compensation in cash.

On August 27, 2013, in consideration for services provided to us in connection with the acquisition of Faneuil, the Board granted an option to purchase 1,000,000 shares of our common stock to Mr. Ravich and an option to purchase 175,000 shares of our common stock to Mr. Byer. Such options vested and became exercisable in full in accordance with their terms on October 18, 2013 by virtue of the closing of our acquisition of Faneuil. The exercise price for each such option is $1.00 per share. Such options expire on October 18, 2020.

Also on August 27, 2013, for reimbursement of personal tax liabilities incurred in connection with the option grants described above, the Board approved cash payments in the amount of $40,000 to Mr. Ravich and $15,000 to Mr. Byer. Mr. Ravich and Mr. Byer became entitled to their respective cash payments on October 18, 2013 by virtue of the closing of our acquisition of Faneuil.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of November 30, 2014, the beneficial ownership of common stock with respect to (i) each person who was known by the Company to own beneficially more than 5% of the outstanding shares of common stock, (ii) each director, (iii) each of the Company's current executive officers and (iv) all directors and executive officers as a group. As of November 30, 2014, the Company had 31,278,660 shares of common stock issued and outstanding, which was the only class of voting securities outstanding.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership (1) | Percent of Class |
|---|---|---|
| **Executive Officers and Directors:** | | |
| Robert Scott Fritz, Director<br>711 Sycamore Avenue<br>Tinton Falls, NJ 07701 | 633,283(2) | 2.02% |
| Hal G. Byer, Director<br>c/o Houlihan Lokey<br>10250 Constellation Blvd, 5th Floor<br>Los Angeles, CA 90067 | 180,007(3) | *% |
| Rae Ravich, Director<br>32 East 57th Street, 12th Floor<br>New York, NY 10022 | 111,528(4) | *% |
| Jess M. Ravich, Executive Chairman<br>149 S. Barrington Avenue, #828<br>Los Angeles, CA 90049 | 14,230,971(5) | 41.52% |
| John Scheel, Director<br>c/o KES Acquisition Company<br>2704 South Big Run Road<br>Ashland, Kentucky 41102 | 761,214(6) | 2.43% |
| Anna Van Buren, Director<br>c/o Faneuil, Inc.<br>2 Eaton St, Suite 1002<br>Hampton, VA 23669 | 7,511(7) | *% |
| Michael Borofsky<br>35 East 62nd Street<br>New York, NY 10065 | 3,756(8) | *% |
| T. Robert Christ, Chief Financial Officer<br>P.O. Box 99418<br>San Diego, CA 92169 | 249,411(9) | *% |
| All current directors and officers as a group | 16,069,907 (10) | 46.27% |
| **5% Stockholders:** | | |
| Harland Clarke Holdings Corp.<br>10931 Laureate Drive<br>San Antonio, Texas 78249 | 3,000,000 | 9.59% |

| | | |
|---|---|---|
| IsZo Captial LP<br>415 Madison Avenue, 14th Floor<br>New York, NY 10017 | 1,627,138 | 5.20% |

* Denotes holders of less than 1%.

(1) Consistent with regulations of the U.S. Securities and Exchange Commission, shares of common stock issuable upon exercise of derivative securities by their terms exercisable within 60 days of November 30, 2013 are deemed outstanding for purposes of computing the percentage ownership of the person holding such securities but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to the knowledge of the Company, the persons and entities named in this table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(2) Includes 431,088 shares held by The Ravich Children Permanent Trust, for which Mr. Fritz is the sole trustee, and 5,000 restricted shares vesting within 60 days of November 30, 2013.

(3) Includes 175,000 shares issuable upon exercise of currently vested options and 5,000 restricted shares vesting within 60 days of November 30, 2013.

(4) Includes 3,756 restricted shares vesting within 60 days of November 30, 2014 and 107,772 shares held by The Ravich Children Permanent Trust of which Ms. Ravich is a 25% beneficiary.

(5) Includes 5,288,751 shares held by the Exemption Trust under the Ravich Revocable Trust of 1989 and 5,844,632 shares held by the Ravich Revocable Trust of 1989, 3,000,000 shares issuable upon exercise of currently vested options, 53,648 shares issued for 2014 Executive Chairman Compensation and 7,511 restricted shares vesting within 60 days of November 30, 2014.

(6) Includes 7,511 restricted shares vesting within 60 days of November 30, 2014.

(7) Includes 7,511 restricted shares vesting within 60 days of November 30, 2014.

(8) Includes 3,756 restricted shares vesting within 60 days of November 30, 2014.

(9) Includes 236,111 shares issuable upon exercise of currently vested options within 60 days of November 30, 2014.

(10) Includes 3,411,111 shares issuable upon exercise of currently vested options and 40,050 restricted shares vesting within 60 days of November 30, 2013.

## CERTAIN RELATIONSHIPS AND RELATED 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 Anna Van Buren, a director of the Company and Faneuil, an option to purchase 60,000 shares of Faneuil's common stock under the Plan. Such option vested with respect to one-third of the shares subject to the option on October 18, 2013 and another one-third on October 18, 2014. The remaining one-third will vest on October 18, 2015, conditioned on Ms. Van Buren's continuous service to Faneuil. Such option automatically vests and becomes exercisable in full upon the consummation of certain corporate transactions. The exercise price for such

option is $30.43 per share (the same price paid by ALJ and Ms. Van Buren to acquire their shares of Faneuil). Such option expires on October 18, 2023.

On April 7, 2014, ALJ entered into a promissory note payable in the amount of $2.0 million from Libra Securities Holdings, LLC, a related party. The promissory note, which was approved by the disinterested directors on the board of directors of ALJ, carried a 5-year maturity with a balloon payment due April 2019 and a 10% annual interest rate. The promissory note was pre-payable at any time without penalty. Interest was payable quarterly but could be capitalized by ALJ at its election. This promissory note was refinanced with ALJ's $2.0 million Term Loan from M&T.

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

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

On March 14, 2014, the Board agreed to increase the compensation of Mr. Ravich from $60,000 to $125,000 per year. On July 21, 2014, the Board approved Mr. Ravich receiving his compensation for 2014 in the form of 53,648 shares of stock.

Prior to ALJ's sale of KES, KES was party to a Management Agreement with Pinnacle. Pinnacle was entitled to a monthly management fee and a management incentive fee as provided in the Management Agreement. John Scheel, a director of the Company and formerly a director of KES, is a principal of and receives compensation from Pinnacle. For the twelve months ended September 30, 2014, 2013 and 2012, Pinnacle's management fees were $0, $5,275,000, and $2,405,096, respectively. The Pinnacle Management fees for the year ended September 30, 2013 included $5,100,000 in termination fees. In addition, the Management Agreement provided for an automatic termination following a change of control of KES, with a termination fee payable in an amount equal to two times the sum of the monthly management fees and management incentive fees paid during the prior 12-month period. In connection with the sale of KES, the Management Agreement terminated as of the merger closing and Pinnacle received a termination payment of $5,146,000, which reflects a discount of approximately $0.5 million agreed to by Pinnacle by utilizing the 2012 fiscal results instead of the 2011 fiscal results in calculating such fee.

Jess Ravich, who is the Executive Chairman of the Company, a director of Faneuil and formerly 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 thereon. 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 thereon.

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.

## FINANCIAL INFORMATION

The following financial statements of the Company are included at the end of this Report:

Consolidated Balance Sheets —

Twelve Months Ended September 30, 2014, 2013 and 2012

Consolidated Statements of Operations —

Twelve Months Ended September 30, 2014, 2013 and 2012

Consolidated Statement of Stockholders' Equity (Deficiency) —

Twelve Months Ended September 30, 2014, 2013 and 2012

Consolidated Statements of Cash Flows —

Twelve Months Ended September 30, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### 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.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's financial statements.

### 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.

**Inventory**

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

*KES.* Inventories are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods (billets) and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted monthly to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs. All inventories are carried at average cost.

**Property, Plant and Equipment**

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

Depreciation is provided principally over the following useful lives:

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

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

**Goodwill and Intangible Assets**

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

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

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

| | |
|---|---|
| Customer relationships | 12.5 years |
| Internal software | 6 years |
| Trade name | Indefinite |

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

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

**Customer Deposits**

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

**Impairment of Long-Lived Assets**

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. The recoverability of long-lived assets is assessed by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting the Company's average cost of capital.

**Loan Costs**

Direct costs and fees associated with the establishment of debt financing are capitalized and amortized on a straight-line basis over the term of the underlying debt.

**Revenue Recognition**

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

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

Deferred revenue represents amounts billed to the customer in excess of amounts earned. In situations where the Company receives payment in advance of the performance of services, such amounts are recorded as deferred revenue and recognized as revenue during the period in which the related services are performed.

Receipt of funding under grant agreements are evaluated for appropriate recognition as revenue, based on the specific terms of the related grant or agreement. Grant funding received in advance of compliance with the grant conditions is recorded as deferred revenue. The Company recognizes grant income once it has complied with the conditions attached to the grant received.

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

*KES*. The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable and collectability is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

**Shipping and Handling Fees and Costs**

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

**Operating Leases**

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

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of certain assets and liabilities for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be realized when the assets and liabilities are recovered or settled.

The Company recognizes uncertain income tax positions using the "more-likely-than-not" approach as defined in the FAS Accounting Standards Codification. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is estimated and is subject to management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

The Company recognizes interest related to uncertainties in income taxes, if any, in interest expense and penalties in operating expenses.

**Asset Retirement Obligations**

The Company accounts for its asset retirement obligations in accordance with applicable standards which require that the discounted fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

All material environmental remediation liabilities for non-capital expenditures, which are probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required which affect the total cost.

**Insurance Reserves**

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

**Self-Insurance**

KES was self-insured for health care costs up to $45,000 per subscriber annually. Insurance coverage was carried for risks in excess of this amount. The Company estimates claims incurred but not reported in accrued expenses in the balance sheet.

**Fair Value of Financial Instruments**

In September 2006, the Financial Accounting Standards Board ("FASB") issued regulations in order to establish a single definition of fair value and a framework for measuring fair value under generally accepted accounting principles ("GAAP") that is intended to result in increased consistency and comparability in fair value measurements with expanded disclosures about fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The Company adopted these regulations pertaining to non-financial assets and non-financial liabilities at the beginning of its 2009 fiscal year. This initial adoption did not have an impact on the Company's financial statements or footnote disclosures.

**Comprehensive Income (Loss)**

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. The Company did not have any items of comprehensive income (loss) for any of the twelve months ended September 30, 2014, 2013 and 2012.

**Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Results of Operations for the Twelve Months Ended September 30, 2014, 2013 and 2012**

Effective October 19, 2013, ALJ acquired substantially all of the capital stock of Faneuil. Effective April 1, 2014, ALJ acquired all of the equity interests of Carpets. ALJ included the results of operations in its consolidated financial statements for Faneuil for the period from October 19, 2013 through September 30, 2014 and Carpets for the period April 1, 2014 through September 30, 2014.

On February 5, 2013, ALJ completed the sale of KES to Optima for $114.4 million in cash pursuant to the merger agreement dated November 18, 2012. The sale 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. As a result, revenues and expenses associated with the operations of KES are presented as Discontinued Operations for all periods presented.

| | 2014 | | 2013 | 2012 |
|---|---|---|---|---|
| Sales | $149,604,762 | 100% | $ - | $ - |
| Cost of sales | 115,919,903 | 77% | - | - |
| Gross profit | 33,684,859 | 23% | - | - |
| Selling expenses | | | - | - |
| Selling, General and administrative expenses | 21,038,276 | 14% | 641,493 | 1,327,362 |
| Income from operations | 12,646,583 | 8% | (641,493) | (1,327,362) |
| Interest Expense | (1,269,806) | 1% | - | - |
| Other Expense | (21,004) | 0% | - | - |
| Dividend and Interest Income | 32,688 | 0% | 462,991 | 19,681 |
| Gain on write off of Discontinued Operations – non KES | - | | - | 2,686,193 |
| Gain on Sale of KES | - | | 76,803,891 | - |
| Gain on Sale of Minority Interest | - | | 10,029,058 | - |
| Loss on Sale of Investments | - | | (95,811) | - |
| Total Other Expenses | 1,258,122 | 1% | 87,203,129 | 2,705,874 |
| Income from Continued Operations | 11,388,460 | 8% | 86,561,636 | 1,378,512 |
| Income Tax (Expense)/Benefit – Continued Operations | 4,543,292 | 3% | (7,240,430) | 3,546,746 |
| Net income from Continued Operations | 15,931,753 | 11% | 79,321,206 | 4,925,258 |
| Income from Discontinued Operations | - | | (159,164) | 10,358,952 |
| Income Taxes – Discontinued Op | - | | | (517,947) |
| Net Income from Discontinued Operations | - | | (159,164) | 9,841,005 |
| Income from Operations | 15,931,753 | 11% | 79,162,042 | 14,766,263 |
| Minority interest | 281,966 | 0% | 12,992,109 | 1,490,347 |
| Net income | $ 15,649,786 | 10% | $ 66,169,933 | $ 13,275,916 |

**For the year ended September 30, 2014, 2013 and 2012**

The operating results for the year ended September 30, 2014, 2013 and 2012, as reflected in the accompanying consolidated statements of operations and described below, include the operating results of Faneuil and Carpets from October 18, 2013, and April 1, 2014, respectively, and the operations of ALJ for the full period.

| | September 30, 2014 | September 30, 2013 | September 30, 2012 |
|---|---|---|---|
| Net Revenue | | | |
| Faneuil | $132,851,782 | $ - | $ - |
| Carpets | 16,752,980 | - | - |
| Consolidated Net Revenue | 149,604,762 | - | - |
| | | | |
| Cost of revenue | | | - |
| Faneuil | 102,095,387 | - | - |
| Carpets | 13,824,516 | - | - |
| Consolidated cost of revenue | 115,919,903 | - | |
| | | | |
| Gross margin | | | |
| Faneuil | 30,756,395 | - | - |
| Carpets | 2,928,464 | - | - |
| Consolidated gross margin | 33,684,859 | - | - |
| | | | |
| Selling, general and administrative | | | |
| Faneuil | 12,245,765 | - | - |
| Carpets | 3,278,290 | - | - |
| Consolidated selling, general and admin | 15,524,055 | - | - |
| | | | |
| Depreciation and amortization | | | |
| Faneuil | 4,150,342 | - | - |
| Carpets | 349,463 | - | - |
| Consolidated | 4,499,805 | - | - |
| | | | |
| Segment operating profit | | | |
| Faneuil | 14,360,288 | | |
| Carpets | (699,289) | | |
| Consolidated | 13,660,999 | | |
| ALJ Expenses | 1,014,416 | 641,493 | 1,327,362 |
| Operating Income | $ 12,646,583 | $ (641,493) | $ (1,327,362) |

**For the twelve months ended September 30, 2014 and 2013**

**Net Revenue**

Net revenue for the Faneuil segment for the twelve months ended September 30, 2014 was $132.9 million, an increase of $132.9 million over net revenue of $0 for the twelve months ended September 30, 2013. The increase in net revenue was attributable to the operations of Faneuil, which was not part of the Company's operations during the twelve months ended September 30, 2013. Net revenue for the period was generated from six verticals with the following contribution levels: Manual Toll Collection, 29.9%; Electronic Toll Collection, 26.1%; Healthcare, 22.3%; Government/Municipal, 10.8%; Utilities, 9.0%; and Commercial, 1.9%.

Net revenue for the Carpets segment for the twelve months ended September 30, 2014 was $16.8 million, an increase of $16.8 million over net sales of $0 for the twelve months ended September 30, 2013. The increase in net revenue was attributable to the operations of Carpets, which was not part of the Company's operations during the twelve months ended September 30, 2013. Net revenue for the period was generated from three verticals with the following contribution levels: Home buildings, 68.5%; Commercial, 20.2%; and Retail, 11.3%.

**Cost of Revenue**

Cost of revenue for the Faneuil segment for the twelve months ended September 30, 2014 was $102.1 million, an increase of $102.1 million over cost of sales of $0 for the twelve months ended September 30, 2013. The increase in cost of revenue was

attributable to the operations of Faneuil, which were not part of the Company's operations during the twelve months ended September 30, 2013.

Cost of revenue for the Carpets segment for the twelve months ended September 30, 2014 was $13.8 million, an increase of $13.8 million over cost of sales of $0 for the twelve months ended September 30, 2013. The increase in cost of revenue was attributable to the operations of Carpets, which were not part of the Company's operations during the twelve months ended September 30, 2013.

**Gross Profit**

Gross profit for the Faneuil segment for the twelve months ended September 30, 2014 was $30.8 million, an increase of $30.8 million over gross profit of $0 for the twelve months ended September 30, 2013. The increase in gross profit was attributable to the operations of Faneuil, which were not part of the Company's operations during the twelve months ended September 30, 2013. Gross profit as a percentage of sales for the twelve months ended September 30, 2014 was 23%.

Gross profit for the Carpets segment for the twelve months ended September 30, 2014 was $2.9 million, an increase of $2.9 million over gross profit of $0 for the twelve months ended September 30, 2013. The increase in gross profit was attributable to the operations of Carpets, which were not part of the Company's operations during the twelve months ended September 30, 2013. Gross profit as a percentage of sales for the twelve months ended September 30, 2014 was 19%.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the Faneuil segment for the twelve months ended September 30, 2014 were $12.2 million, an increase of $12.2 million over selling, general and administrative expenses of $0 for the twelve months ended September 30, 2013. The increase was primarily attributable to the operations of Faneuil, which were not part of the Company's operations during the twelve months ended September 30, 2013.

Selling, general and administrative expenses for the Carpets segment for the twelve months ended September 30, 2014 were $3.3 million, an increase of $3.3 million over selling, general and administrative expenses of $0 for the twelve months ended September 30, 2013. The increase was primarily attributable to the operations of Carpets, which were not part of the Company's operations during the twelve months ended September 30, 2013.

Selling, general and administrative expenses for ALJ for the twelve months ended September 30, 2014 were $1.0 million, an increase of $372,923 over selling, general and administrative expenses of $641,493 for the twelve months ended September 30, 2013. The increase was primarily attributable to an increase in legal fees of $133,000 and an increase in executive and bonus compensation of $231,600.

**Interest Expense**

Interest expense for the twelve months ended September 30, 2014 was $1.3 million, an increase of $1.2 million over interest expense of $0 for the twelve months ended September 30, 2013. The increase was attributable to interest expense accrued and paid on the Harland Clarke Note payable by Faneuil and Libra Securities Note Payable by ALJ.

**Interest Income**

Interest income for the twelve months ended September 30, 2014 was $32,688, a decrease in $430,303 over interest income of $462,991 for the twelve months ended September 30, 2013. The decrease was attributable to interest and dividend income earned on lower cash and investment balances during the twelve months ended September 30, 2014.

**Income Taxes**

Income tax benefit from continuing operations for the twelve months ended September 30, 2014 was $4.5 million compared to income tax expense of $7.2 million for the twelve months ended September 30, 2013. The change was primarily attributed to $7.2 million in tax expense for the year ended September 30, 2013 related to the sale of KES and the recording a deferred tax asset related for the year ended September 30, 2014 of $5.4 million related to our NOLs.

**For the twelve months ended September 30, 2013 and 2012**

**General and Administrative Expenses**

General and administrative expenses for the twelve months ended September 30, 2013 were $0.6 million, a decrease of $0.7 million, or 52%, over general and administrative expenses for the twelve months ended September 30, 2012 of $1.3 million. This decrease was primarily attributable to legal and investment banking expenses incurred in the twelve months ended September 30, 2012 related to the sale of KES of $0.7 million that did not recur in the twelve months ended September 30, 2013.

**Interest Income**

Interest income for the twelve months ended September 30, 2013 was $462,991, an increase of $443,310 million over interest income of $19,681 for the twelve months ended September 30, 2012. The increase was attributable to interest and dividend income earned on higher cash and investment balances during the twelve months ended September 30, 2013.

**Gain on Write Off of Liabilities related to Discontinued Operations – Non KES**

Gain on the write off of liabilities related to discontinued operations for the twelve months ended September 30, 2012 was $2.7 million. The Company did not recognize any gain on the write off of liabilities related to discontinued operations for the twelve months ended September 30, 2013. The Company wrote off $2.7 million in liabilities that it determined are no longer due in the twelve months ended September 30, 2012. The Company has reserved $298,466, against estimated tax liabilities that still remain related to the discontinued operations.

**Gain on the Sale of KES**

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

**Gain on the Settlement of Minority Interest**

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

**Loss on Sale of Investments**

During the twelve months ended September 30, 2013, the Company recognized a loss on the sale of investment securities of approximately $95,811. The Company did not recognize a loss on the sale of investment securities for the twelve months ended September 30, 2012.

**Income from Continuing Operations**

Income from continuing operations for the twelve months ended September 30, 2013 was approximately $86.6 million compared to income from continuing operations for the twelve months ended September 30, 2012 of $1.4 million. The increase was primarily attributable to the gain on the sale of KES and gain on the settlement of minority interest.

**Income taxes from Continuing Operations**

Income taxes from continuing operations for the twelve months ended September 30, 2013 were $7.2 million compared to a tax benefit of $3.5 million for the twelve months ended September 30, 2012. The increase was primarily attributable to the write off of approximately $5.6 million of deferred tax asset related to the Company's NOLs, and $1.6 million associated with the sale of KES.

**Income (Loss) from Discontinued Operations**

Loss from discontinued operations for the twelve months ended September 30, 2013 was $159,164 compared to income from discontinued operations of $10.4 million for the twelve months ended September 30, 2012. The decrease was primarily

attributable to a shorter operating time frame for KES in the twelve months ended September 30, 2013. KES was sold on February 5, 2013, thus there were significantly fewer days of operations for KES in the twelve months ended September 30, 2013 compared to the twelve months ended September 30, 2012.

**Liquidity and Capital Resources – September 30, 2014**

The Company recognized net income of $15.6 million for the twelve months ended September 30, 2014 and generated a positive cash flow from operating activities of $14.4 million, partially offset by cash used in investing activities of $28.9 million and financing activities of $3.2 million for the twelve months ended September 30, 2014. The Company had an accumulated deficit of $219.6 million and stockholders' equity of $47.8 million at September 30, 2014.

On October 18, 2013, the Company acquired Faneuil for $53.0 million, consisting of $25.0 million in cash, a contribution of $0.5 million in cash for working capital purposes, 3,000,000 shares of ALJ common stock valued at $2.5 million and the Harland Clarke Note for $25.0 million.

Effective April 1, 2014, ALJ acquired all of the equity interests of Carpets pursuant to a purchase and sale agreement, dated April 14, 2014, by and among ALJ, the seller and Carpets. ALJ paid $5.25 million, in cash to the seller for all of the equity interests in Carpets. Concurrently with the closing, ALJ invested $240,000 in Carpets.

ALJ funded the Carpets acquisition through existing cash, the sale of 1.4 million shares of its common stock in two separate private placements at a price of $1.60 per share, and the incurrence of $2.0 million in debt from Libra Securities Holdings, LLC, a related party, by issuance of the Promissory Note dated April 7, 2014.

On September 30, 2014, Faneuil refinanced its $25.0 million Harland Clarke Note and its $5 million Senior Credit Facility. Faneuil had $21.6 million inclusive of accrued interest remaining on the Harland Clarke Note, and at closing paid down $2.6 million from cash on hand, leaving $19.0 million, which was refinanced under a term loan with M&T Bank. The $19.0 million term loan amortizes over a period of 60 months at $316,667 per month plus accrued interest at a rate of Libor plus 3.75%, declining to Libor plus 2.50% upon obtaining certain ratios. The Harland Clarke Note was scheduled to accrue interest over the next twelve months at a rate of 7.5% and was due in full in October 2015. Faneuil also refinanced its $5 million Senior Credit Facility with M&T, which, as refinanced, has a two-year term and accrues interest at a rate of Libor plus 2.5%. The Term Loan and Revolver are guaranteed by Faneuil and secured by a lien on all of the corporate assets of Faneuil.

On September 30, 2014, ALJ refinanced its related party note payable of $2 million due to Libra Securities with a $2 million Term Loan with M&T Bank. The ALJ Term Loan amortizes over a period of 30 months at $66,667 per month plus accrued interest at a rate of Libor plus 3.75%. The ALJ Term Loan is secured by a first lien on all corporate assets owned by ALJ. The ALJ Term Loan is guaranteed by Faneuil and secured by a lien on all of the corporate assets of Faneuil. The original related party note payable accrued interest at a rate of 10% and was due in full on April 2019.

On September 30, 2014, Carpets executed a $3.0 million Senior Credit Facility with M&T Bank (the "Carpets Revolver"). The Carpets Revolver carries a term of 24 months and accrues interest at a rate of Libor plus 4.00%. The Carpets Revolver is secured by a first lien on all corporate assets of Carpets and its subsidiaries. The Carpets Revolver is guaranteed by Faneuil and secured by a lien on all of the corporate assets of Faneuil.

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

**Operating Activities**

During the twelve months ended September 30, 2014, the Company received $14.4 million from operating activities, primarily attributable $15.6 million in net income, $4.5 million added back due to depreciation and amortization, $2.5 million due to an increase in accrued expenses and $1.9 million increase in accounts payable, partially offset by a $5.9 million increase in accounts receivable, $3.5 million increase in deferred tax assets and $1.5 million decrease in deferred revenue.

**Investing Activities**

For the twelve months ended September 30, 2014, the Company used $28.9 million in investing activities, primarily attributable to the $19.4 million acquisition of Faneuil, $5.3 million acquisition of Carpets and $4.3 million acquisition of fixed assets.

**Financing Activities**

For the twelve months ended September 30, 2014, the Company used $3.2 million in financing activities primarily attributable to repayments on the Harland Clarke Note of $6.0 million by Faneuil, partially offset by $2.2 million provided for in the sale of ALJ stock and $2.0 million related to the proceeds from a $2.0 million term loan to ALJ.

**Principal Commitments**

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

| | Payments Due by Twelve Month Periods Ending September 30, (in thousands) | | | | | |
|---|---|---|---|---|---|---|
| **Contractual cash obligations** | **Total** | **2015** | **2016** | **2017** | **2018** | **Thereafter** |
| Faneuil - Note payable – M&T | 19,000 | 3,800 | 3,800 | 3,800 | 3,800 | 3,800 |
| Faneuil – Line of Credit – M&T Bank | - | - | - | - | - | - |
| ALJ – Note payable – M&T | 2,000 | 800 | 800 | 400 | - | - |
| Carpets – Line of Credit – M&T | - | - | - | - | - | - |
| Carpets – ST Note payable | 57 | 57 | - | - | - | - |
| Faneuil – Operating Leases | 10,559 | 3,266 | 2,832 | 2,750 | 1,287 | 424 |
| Carpets – Operating Leases | 2,044 | 510 | 455 | 393 | 353 | 333 |
| Faneuil – Capital Lease Obligations | 49 | 49 | - | - | - | - |
| Total contractual Cash obligations | $33,709 | $8,482 | $7,887 | $7,343 | $5,440 | $4,557 |

Faneuil has committed an additional $1.9 million towards capital expansion projects directly related to awarded contracts.

**Off-Balance Sheet Arrangements**

The Company does not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at September 30, 2014.

**ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES**
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**CERTIFICATION OF EXECUTIVE CHAIRMAN**

I, Jess Ravich, certify that:

1. I have reviewed this annual report of ALJ Regional Holdings, Inc.;

2. Based on my knowledge, this annual report 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 annual report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this annual report.

Date: December 31, 2014

/s/ Jess Ravich
Jess Ravich, Executive Chairman

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, T. Robert Christ, certify that:

1. I have reviewed this annual report of ALJ Regional Holdings, Inc.;

2. Based on my knowledge, this annual report 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 annual report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this annual report.

Date: December 31, 2014 /s/ T. Robert Christ

T. Robert Christ, Chief Financial Officer

**ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**SEPTEMBER 30, 2014, 2013 AND 2012**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 10,078,301 | $ 27,825,326 | $ 2,823,576 |
| Accounts receivable, less allowance for doubtful accounts of $1,615,964, $0 and $420,710, respectively | 25,441,827 | - | 11,548,624 |
| Inventory | 1,999,028 | - | 24,005,885 |
| Prepaid expenses and other current assets | 5,680,490 | 129,492 | 1,252,102 |
| Other receivables | - | - | 71,701 |
| Deferred tax asset | - | - | 6,285,599 |
| Total current assets | 43,199,646 | 27,954,8188 | 45,987,487 |
| | | | |
| Property, plant and equipment | 17,794,889 | -- | 5,177,477 |
| Less accumulated depreciation and amortization | (8,733,845) | - | (2,934,624) |
| Property, plant and equipment, net | 9,061,044 | -- | 2,242,853 |
| | | | |
| Other assets: | | | |
| Goodwill | 22,283,308 | - | |
| Intangible assets | 16,779,458 | - | |
| Deferred loan costs, net | 215,072 | - | 274,494 |
| Other assets | 183,513 | - | 224,460 |
| Deferred tax asset | 5,446,581 | - | - |
| Investment in Bellator | 102,077 | 102,077 | 90,228 |
| Total other assets | 45,010,009 | 102,077 | 589,182 |
| Total assets | $ 97,270,699 | $ 28,056,895 | $ 48,819,522 |

(continued)

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY) | | | |
| Current liabilities: | | | |
| Accounts payable | $ 5,852,612 | $ - | $ 7,619,591 |
| Accrued expenses | 8,480,239 | - | 4,522,920 |
| Income taxes payable | 251,206 | - | 50,485 |
| Current portion of deferred revenue | 2,294,667 | | |
| Current portion of term loans | 4,656,789 | - | 4,000,000 |
| Current portion of capital lease obligation | 43,388 | - | - |
| Current portion of workman's compensation reserve | 709,234 | | |
| Customer deposits | 437,921 | | |
| Other liabilities | 427,175 | | |
| Liabilities related to discontinued operations | 298,466 | 298,466 | 298,466 |
| Total current liabilities | $ 23,451,697 | $ 298,466 | $ 16,491,462 |
| Non-current liabilities: | | | |
| Notes payable, less current portion | 16,400,000 | | |
| 8% subordinated secured loans | - | - | 18,998,213 |
| Deferred revenue, less current portion | 596,395 | | |
| Workman's comp reserve, less current portion | 1,240,600 | - | - |
| Term loan payable, less current portion | - | - | 7,167,015 |
| Other liabilities | 813,413 | | |
| Unearned revenue | 112,607 | - | - |
| Series A Preferred stock of KES subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, liquidation value of $1,000 per share; 0, 0, 5936 shares issued and outstanding at September 30, 2014, 2013 and 2012 plus cumulative dividends of $0, $0, and $5,867,750 | - | - | 11,803,750 |
| Deferred tax liability | 5,446,581 | - | 403,746 |
| Minority interest – related parties | 1,381,959 | - | 7,266,179 |
| Total liabilities | $ 49,443,252 | $ 298,466 | $ 62,130,365 |
| Commitments and contingencies | | | |
| Stockholders' equity (deficiency): | | | |
| Common stock, $0.01 par value; authorized – 100,000,000 shares; 31,278,660, 26,744,913, and 57,246,598, issued and outstanding as of September 30, 2014, 2013 and 2012 | $ 312,786 | $ 267,612 | $ 572,466 |
| Additional paid in capital | $ 267,917,729 | $ 262,755,790 | $ 288,426,728 |
| Accumulated deficit | $ (219,586,160 ) | $ (235,235,946 ) | $ (301,405,879) |
| Treasury stock – 245,627 at September 30, 2014, 25,000 at September 30, 2013 and 607,500 at September 30, 2012, at cost | (816,908 ) | (29,027 ) | (904,158) |
| Total stockholders' equity (deficiency) | $ 47,827,447 | $ 27,758,429 | $ (13,310,843) |
| Total liabilities and stockholders' equity (deficiency) | $ 97,270,699 | $ 28,056,895 | $ 48,819,522 |

See accompanying notes to consolidated financial statements.

**ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**TWELVE MONTHS ENDED SEPTEMBER 30, 2014, 2013 AND 2012**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Revenue | $ 149,604,762 | - | - |
| Cost of revenue | 115,919,903 | - | - |
| Gross Margin | 33,684,859 | | |
| | | | |
| Selling, general, and administrative | $ 21,038,277 | $ 641,493 | $ 1,327,362 |
| Income from operations | 12,646,582 | (641,493) | (1,327,362) |
| OTHER INCOME (EXPENSE) | | | |
| Interest expense | (1,269,806) | - | - |
| Dividend and Interest Income | 32,688 | 462,991 | 19,681 |
| Other expense | (21,004) | - | - |
| Gain on write off of Discontinued Operations | - | - | 2,686,193 |
| Gain on Sale of KES | - | 76,806,891 | - |
| Gain on Sale of Minority Interest | - | 10,029,058 | - |
| Loss on Sale of Investments | - | (95,811) | - |
| Total Other Expense, net | (1,258,122) | 87,203,129 | 2,705,874 |
| Income from Continued Operations | 11,388,460 | 86,561,636 | 1,378,512 |
| Income Taxes – Current (expense) benefit | (677,131) | (7,240,430) | (176,645) |
| Income Taxes – Deferred (expense) benefit | 5,220,423 | - | 3,723,391 |
| Income Taxes – Total | 4,543,292 | (7,240,430) | 3,546,746 |
| Net income from Continued Operations | 15,931,752 | 79,321,206 | 4,925,258 |
| Income from Discontinued Operations | - | (159,164) | 10,358,952 |
| Income Taxes – Discontinued Operations | - | - | (517,947) |
| Net Income – Discontinued Operations | - | (159,164) | 9,841,005 |
| INCOME FROM OPERATIONS, NET | 15,931,752 | 79,162,042 | 14,766,263 |
| | | | |
| MINORITY INTEREST | 281,966 | 12,992,109 | 1,490,347 |
| TOTAL NET INCOME | $ 15,649,786 | $ 66,169,933 | $ 13,275,916 |
| | | | |
| NET INCOME PER COMMON SHARE - | | | |
| Basic | $ 0.54 | $ 1.58 | $ 0.23 |
| Diluted | $ 0.48 | $ 1.47 | $ 0.22 |
| | | | |
| NUMBER OF COMMON SHARES OUTSTANDING | | | |
| Basic | 29,011,787 | 41,995,756 | 57,090,319 |
| Diluted | 32,399,287 | 44,883,256 | 59,490,319 |

See accompanying notes to consolidated financial statements.

**ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)**
**TWELVE MONTHS ENDED SEPTEMBER 30, 2014, 2013 AND 2012**

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balances at September 30, 2011 | 56,934,040 | $ 569,340 | $ 288,365,584 | $ (314,681,795) | $ (829,576) | $ (26,576,447) |
| Share based compensation | | | | | | |
| Restricted Stock | 200,000 | 2,000 | 43,997 | | | 45,997 |
| Stock Options | 105,930 | 1,059 | 17,214 | | | 18,273 |
| Escheated Stock | 6,628 | 67 | (67) | | | - |
| Treasury Stock | | | | | (74,582) | (74,582) |
| Net Income | | | | 13,275,916 | | 13,275,916 |
| Balances at September 30, 2012 | 57,246,598 | $ 572,466 | $ 288,426,728 | $ (301,405,879) | $ (904,158) | $ (13,310,843) |
| Share based compensation | - | | | | | |
| Issuance of Restricted Stock | 76,215 | 762 | 61,738 | | | 62,500 |
| Exercise of Stock Options | 200,000 | 2,000 | 44,000 | | | 46,000 |
| Net Income | | | | 66,169,933 | | 66,169,933 |
| Repurchase of 30,000,000 shares | (30,000,000) | (300,000) | (24,900,000) | | | (25,200,000) |
| Retirement of Treasury Stock | (777,900) | (7,616) | (876,676) | | 875,131 | (9,161) |
| 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 | 2,460,000 | | | 2,490,000 |
| Issuance of stock for the purchase of Carpets | 1,400,000 | 14,000 | 2,226,000 | | | 2,240,000 |
| Share based compensation | 133,747 | 1,174 | 475,939 | | | 477,113 |
| Treasury stock repurchase | | | | | (787,881) | (787,881) |
| Net income | | | | 15,649,786 | | 15,649,786 |
| Balances at September 30, 2014 | 31,278,660 | 312,786 | 267,917,729 | (219,586,160) | (816,908) | 47,827,447 |

See accompanying notes to consolidated financial statements.

**ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**TWELVE MONTHS ENDED SEPTEMBER 30, 2014, 2013 AND 2012**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net Income | $ 15,649,786 | $ 66,169,933 | $ 13,275,916 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Gain on sale of KES | - | (76,806,891) | - |
| Gain on sale of Minority Interest | - | (10,029,058) | - |
| Payment of KES Acquisition Fees | - | (8,036,882) | - |
| Discontinued Operations - Accumulated Deficit | - | (159,164) | - |
| Share based compensation | 475,940 | 62,500 | 18,273 |
| Depreciation and amortization | 4,499,805 | - | 360,666 |
| Provision for bad debts | 615,964 | - | (169,085) |
| Provision for deferred taxes | (613,499) | | |
| Gain on early extinguishment of 13% Preferred Stock | - | - | - |
| Gain on early extinguishment of 4% Notes Payable | - | - | - |
| Gain on write off of liabilities related to discontinued operations | - | - | (2,686,194) |
| Amortization of loan costs | - | - | 124,225 |
| Loss on investments | - | - | - |
| Non-controlling interest | 380,138 | 12,977,301 | 1,490,348 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in - | | | |
| Accounts receivable, net | (5,865,179) | - | 3,142,854 |
| Inventories | (599,687) | - | 4,345,246 |
| Other assets | (111,354) | - | - |
| Workman's compensation reserve | (126,169) | | |
| Prepaid expenses | 258,124 | (9,295) | (13,439) |
| Deferred tax asset | (3,479,181) | 5,881,853 | (3,226,032) |
| Deposits | - | - | 700,000 |
| Increase (decrease) in - | | | |
| Accounts payable | 1,945,423 | - | (2,269,407) |
| Income taxes payable | 251,206 | (50,485) | (816,815) |
| Accrued expenses | 2,529,170 | - | 442,142 |
| Deferred revenue | (1,552,913) | | |
| Deferred tax liability | - | - | 20,588 |
| Unearned revenue | (545,483) | | |
| Other liabilities | 857,848 | | |
| Customer deposits | (191,858) | | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 14,378,081 | $ (10,000,188) | $ 14,739,286 |
| | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Investment in Bellator | $ - | $ (11,849) | $ - |
| Cash received from sale of KES | - | 112,500,000 | - |
| Cash received from sale of Series B Stock in KES | - | 126,845 | - |
| Cash received from retirement of 8% loans receivable | - | 267,622 | - |
| Cash used in purchase of Faneuil | (19,426,201) | | |
| Cash used in purchase of Carpets | (5,254,105) | | |
| | | | |
| Investment in Equipment | (4,263,169) | - | (70,274) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | $ (28,943,475) | $ 112,882,618 | $ (70,274) |

| | | | |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from line of credit, net | $ | $ (7,167,015) | $ (9,558,289) |
| Payments on capital lease obligations and contract payables | - | - | (171,792) |
| Repayment on 8% Subordinated Loan | | (19,265,835) | (833,790) |
| Net proceeds from stock and options | | 46,000 | 45,997 |
| Loan costs associated with M&T Financing | (215,072) | - | - |
| Payments against Harland Clarke Note Payable | (6,000,000) | - | - |
| Repayment on 13% Preferred Stock | | (11,803,750) | - |
| Proceeds from the sale of ALJ Stock | 2,240,000 | - | - |
| Proceeds from Term Loan to ALJ | 2,000,000 | - | - |
| Repurchase and retirement of ALJ common stock | | (25,200,000) | - |
| Payments for Series B Stock of KES | | (10,480,919) | |
| Repayments on PNC term loan | | (4,000,000) | (2,000,000) |
| Proceeds from Faneuil Acquisition post closing | 335,000 | - | - |
| Payments on Capital Leases | (359,564) | - | - |
| Repayments on Lake Forest Term Loan | | - | (535,208) |
| Membership contribution - Carpets | - | - | - |
| Payments against various notes and agreements - Carpets | (395,288) | | |
| Repurchase of ALJ Treasury Stock | (786,707) | (9,161) | (74,582) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | $ (3,181,631) | $ (77,880,680) | $ (13,127,664) |
| | | | |
| NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES | $ (17,747,025) | $ 25,001,750 | $ 1,541,348 |
| | | | |
| CASH AND CASH EQUIVALENTS | | | |
| Net increase (decrease) | $ (17,747,025) | $ 25,001,750 | $ 1,541,348 |
| Balance at beginning of period | 27,825,326 | 2,823,576 | 1,282,228 |
| Balance at end of period | $ 10,078,301 | $ 27,825,326 | $ 2,823,576 |
| | | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Interest paid | $ 1,243,127 | $ 8,078,135 | $ 3,401,357 |
| Income taxes paid | $ 475,000 | $ 1,654,395 | $ 3,059,919 |

**Noncash investing and financing transactions:**

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

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

See accompanying notes to consolidated financial statements.

**ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**TWELVE MONTHS ENDED SEPTEMBER 30, 2014, 2013 AND 2012**

## 1. Organization and Basis of Presentation

### The Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, entitled The FASB Accounting Standards Codification of the Hierarchy of Generally Accepted Accounting Principles ("GAAP"). In substance, SFAS No. 168 makes the FAS Accounting Standards Codification ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC now is considered to be non-authoritative. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Company adopted the ASC upon issuance, with no material impact to the financial statements.

### 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, effective October 19, 2013, ALJ acquired substantially all of the capital stock of Faneuil, Inc. (including its subsidiaries, "Faneuil"). As further described in Note 4 below, effective April 1, 2014, ALJ acquired all of the equity interests of Floors-N-More, LLC, dba, Carpets N' More ("Carpets"). ALJ included the results of operations in its consolidated financial statements for Faneuil for the period from October 19, 2013 through September 30, 2014 and Carpets for the period April 1, 2014 through September 30, 2014.

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

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

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

### Going Concern

Based on its current level of operations, the Company believes that its current cash resources will be adequate to fund its operations for the next twelve months.

The Company's management may also consider various strategic alternatives in the future, including the acquisition of new business opportunities, which may be from related or unrelated parties. However, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or equity securities.

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

### Nature of Operations

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

Faneuil is a leading provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries. Faneuil is a leading provider of call center services, back office operations, staffing services, and toll collection services to government and regulated commercial clients across the United States. The Company is headquartered in Hampton, Virginia.

Carpets is one of the largest floor covering retailers in Las Vegas, Nevada, and a provider of multiple products for the commercial, retail and home builder markets including all types of flooring, countertops, cabinets, window coverings and garage/closet organizers, with five retail locations, as well as a stone and solid surface fabrication facility.

### 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 a 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.

### Inventory

*Carpets.* Inventory, which consists of carpet, wood, vinyl and tile, is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method, and market represents the lower of cost or estimate.

*KES.* Inventories of KES are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods (billets) and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs.

### Property, Plant and Equipment

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

Depreciation is provided principally over the following useful lives:

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

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

**Customer Deposits**

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

**Revenue Recognition**

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

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

Deferred revenue represents amounts billed to the customer in excess of amounts earned. In situations where the Company receives payment in advance of the performance of services, such amounts are recorded as deferred revenue and recognized as revenue during the period in which the related services are performed.

Receipt of funding under grant agreements are evaluated for appropriate recognition as revenue, based on the specific terms of the related grant or agreement. Grant funding received in advance of compliance with the grant conditions is recorded as deferred revenue. The Company recognizes grant income once it has complied with the conditions attached to the grant received.

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

*KES.* KES recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable and collectability is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

**Insurance Reserves**

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

**Self-Insurance**

*KES.* KES was self-insured for health care costs up to $45,000 per subscriber annually. Insurance coverage was carried for risks in excess of this amount. The Company recognized self-insured health care expense for the twelve months ended September 30, 2014, 2013, and 2012 of approximately $0, $1,361,000, and $3,077,000, respectively. As of September 30, 2014, 2013, and 2012, estimated claims incurred but not reported were approximately $0, $0, and $325,332, respectively.

**Goodwill and Intangible Assets**

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

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

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

| | |
|---|---|
| Customer relationships | 12.5 years |
| Internal software | 6 years |
| Trade name | Indefinite |

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

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

**Long-Lived Assets**

The Company assesses the impairment of property, plant and equipment and amortizable intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Some factors the Company considers important that could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of these assets or the strategy for the Company's overall business; and
- Significant negative industry or economic trends.

When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more indicators of impairment, it measures the impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with current market expectations. Significant assumptions requiring judgment are required to determine future cash flows, including but not limited to the estimated remaining useful life of the asset, future revenue streams and future expenditures to maintain the existing service potential of the asset. The

Company re-evaluates the useful life of these assets at least annually to determine if events and circumstances continue to support their recorded useful lives. Assets held for sale are carried at the lower of carrying amount or fair value, less estimated costs to sell such assets.

**Loan Costs**

The Company amortized its loan costs from origination date through the loan maturity date. The loan cost amortization expense was $0, $274,494, and $137,628, for the twelve months ended September 30, 2014, 2013 and 2012, respectively.

**Income Taxes**

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

The Company's judgments relative to the current provision for income taxes take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2006 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 current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause actual income tax obligations to differ from our estimates, thus materially impacting the Company's financial position and results of operations.

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

**Deferred Acquisition Costs**

Deferred acquisition costs related to pending transactions are accounted for as part of the purchase consideration if and when the transaction is completed. If the Company does not complete the transaction, those costs are charged to operations in the period that the Company's efforts to complete the transaction are terminated.

**Shipping and Handling Fees and Costs**

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

**Operating Leases**

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

**Stock-Based Compensation**

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

on analyses of historical data, including termination patterns and other factors. Estimated forfeiture rates are applied 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. Stock-based compensation cost for restricted stock awards and restricted stock units are measured based on the fair market value of the Company's common stock at the date of grant.

**Asset Retirement Obligations**

The Company accounts for its asset retirement obligations in accordance with applicable standards which require that the discounted fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

All material environmental remediation liabilities for non-capital expenditures, which are probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required which affect the total cost.

**Fair Value of Financial Instruments**

In September 2006, the FASB issued regulations in order to establish a single definition of fair value and a framework for measuring fair value under generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements with expanded disclosures about fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The Company adopted these regulations pertaining to non-financial assets and non-financial liabilities at the beginning of its 2009 fiscal year. This initial adoption did not have an impact on the Company's financial statements or footnote disclosures.

**Concentrations**

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

*Faneuil*
For the year ending September 30, 2014, revenue from two customers accounted for 37.4% and 16.6% of Faneuil's total net revenues, of which $6.7 million and $2.8 million were included in accounts receivable as of September 30, 2014.

*Carpets*
For the year ended September 30, 2014, Carpets received 72.6% of its revenue from 4 home builders which accounted for 27.9%, 18.9%, 15.1% and 10.7% of Carpets revenues, respectively, of which $1.2 million, $690,066, $532,375 and $503,497, respectively, were included in accounts receivable as of September 30, 2014.

For the year ended September 30, 2014, Carpets had 3 suppliers that accounted for approximately 26.0%, 16.6% and 13.2% of its inventory purchases, of which approximately $2.2 million, $1.4 and $1.1 million, respectively, were included in accounts payable at September 30, 2014.

**Earnings Per Share**

Basic net income or loss per share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Non-vested shares of restricted stock are not included in the computation of basic net

income per share until vested. Diluted net income per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted net income per share also includes the dilutive effect of nonvested shares of restricted stock.

The following table summarizes the basic and dilutive weighted average shares at September 30, 2014, 2013 and 2012:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Weighted average shares outstanding, basic | 29,011,787 | 41,995,756 | 57,090,319 |
| Dilutive effect of: | | | |
| Options to purchase common stock | 3,387,500 | 2,887,500 | 2,400,000 |
| Weighted average shares outstanding, diluted | 32,399,287 | 44,883,256 | 59,490,319 |

**Comprehensive Income (Loss)**

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation and unrealized gains or losses on marketable securities. The Company did not have any items of comprehensive income (loss) for the twelve months ended September 30, 2014, 2013 and 2012.

**Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Reclassifications**

Certain amounts for 2014 and 2012 have been reclassified to conform to the 2014 and 2012 presentations. These reclassifications had no effect on the previously report net or comprehensive income.

**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 respectively hold 883,857, 32,857 and 3,286 shares of Faneuil's common stock, for a total of 920,000 shares of Faneuil's common stock issued and outstanding. The maximum number of shares of common stock that Faneuil is authorized to issue is 1,000,000 shares.

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

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

**4. Acquisition of Carpets**

Effective April 1, 2014, ALJ acquired all of the equity interests of Floors N' More, dba Carpets N' More ("Carpets") pursuant to a purchase and sale agreement, dated April 14, 2014, by and among ALJ, the seller and Carpets. ALJ paid $5.25 million in cash to the seller for all of the equity interests in Carpets. Concurrent with the closing, ALJ invested $240,000 in Carpets for a total ownership percentage of 100.00% (basic) or 93.19% (fully diluted) and Mr. Chesin, the Chief Executive Officer of Carpets, received an ownership percentage of 0.00% (basic) or 6.81% (fully diluted) of Carpets by way of the issuance of 40,000 Equity Award Units, 10,000 of which vest on each of December 31, 2014, 2015, 2016 and 2017. On July 1, 2014, each of the Limited Liability Company Operating Agreement and the Members' Agreement of Carpets were amended and restated to provide Mr. Chesin with an allocation of 750,000 Class B Preferred Units and 75,000 Common Units. These interests represent an aggregate of 12% (basic) or 17% (fully diluted) of the aggregate equity interests in Carpets. After giving effect to the above issuances, Carpets, on a fully diluted basis, is owned 83% by ALJ and 17% by Mr. Chesin.

**5. Discontinued operations related to KES**

On February 5, 2013, ALJ completed the sale of KES to Optima for $114.4 million in cash pursuant to the merger agreement dated November 18, 2012. The sale 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.

As a result, KES is now being reported as a Discontinued Operation on ALJ's financial statements. The following Statements of Operations provide information on the discontinued operations not shown above in the Financial Statements for the years ended September 30, 2013 and 2012.

**DISCONTINUED OPERATIONS - KES**
**STATEMENTS OF OPERATIONS (UNAUDITED)**

| | Twelve Months Ended September 30, | |
|---|---|---|
| | **2013** | **2012** |
| NET SALES | $ 48,002,933 | $ 158,784,471 |
| COSTS AND EXPENSES | | |
| Cost of sales | 44,082,121 | 136,580,958 |
| Selling | 727,809 | 2,116,274 |
| General and administrative | 2,435,276 | 6,082,843 |
| Total cost of operations | 47,245,206 | 144,780,075 |
| Income from operations | 757,727 | 14,004,396 |
| OTHER INCOME (EXPENSE) | | |
| Loan Fees | - | (337,455) |
| Interest Expense | (924,664) | (3,326,046) |
| Interest Income | 4,763 | 9,000 |
| Gain on Debt | - | - |
| Other income (expense) | 3,010 | 9,057 |
| Total other (expense) income | (916,891) | (3,645,444) |
| INCOME (LOSS) BEFORE INCOME TAXES | (159,164) | 10,358,952 |
| Income taxes | - | 517,947 |
| INCOME (LOSS) FROM KES | (159,164) | 9,841,005 |

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

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

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 ("Pinnacle"), (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.

**6. Discontinued Operations unrelated to KES**

As of September 30, 2014, 2013 and 2012, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of $298,466, $298,466 and $298,466, respectively, remaining from its discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the discontinued businesses. The Company wrote off $2.7 million in liabilities that it has determined are no longer due in the twelve months ended September 30, 2012. The Company has reserved $298,466 against estimated tax liabilities that still remain related to the discontinued operations.

**7. Business Segment Information**

The Company has organized its business along two reportable segments together with a corporate group for certain support services. The Company's operations are aligned on the basis of products, services and industry. Management measures and evaluates the reportable segments based on operating income. The current segments and their principal activities consist of the following:

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

- Carpets is one of the largest floor covering retailers in Las Vegas, Nevada, and a provider of multiple products for the commercial, retail and home builder markets including all types of flooring, countertops, cabinets, window coverings and garage/closet organizers, with five retail locations, as well as a stone and solid surface fabrication facility.

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

| | For the year Ended September 30, 2014 | | For the year Ended September 30, 2013 | For the year Ended September 30, 2012 |
|---|---|---|---|---|
| Net Revenue | | | | |
| Faneuil | $ 132,851,782 | 89% | $ - | $ - |
| Carpets | 16,752,980 | 11% | - | - |
| Consolidated | 149,604,762 | 100% | - | - |
| Cost of revenue | | | | |
| Faneuil | 102,095,387 | 68% | - | - |
| Carpets | 13,824,516 | 9% | - | - |
| Consolidated | 115,919,903 | 77% | - | - |
| Gross Margin | | | | |
| Faneuil | 30,756,395 | 21% | - | - |
| Carpets | 2,928,464 | 2% | - | - |
| Consolidated | 33,684,859 | 23% | - | - |
| Selling, general and administrative | | | | |
| Faneuil | 12,245,765 | 8% | - | - |
| Carpets | 3,278,290 | 2% | - | - |
| Consolidated | 15,524,055 | 10% | - | - |
| Depreciation and amortization | | | | |
| Faneuil | 4,150,342 | 3% | - | - |
| Carpets | 349,463 | 0% | - | - |
| Consolidated | 4,499,805 | 3% | - | - |
| Segment operating profit | | | | |
| Faneuil | 14,360,288 | 10% | - | - |
| Carpets | (699,289) | 0% | - | - |
| Consolidated | 13,660,999 | 9% | - | - |
| Parent company expenses | 1,014,416 | 1% | 641,493 | 1,327,362 |
| Operating income | 12,646,583 | 8% | (641,493) | (1,327,362) |
| Consolidated adjusted EBITDA* | 17,622,327 | 12% | | |
| | | | | |
| Total assets | | | | |
| Faneuil | 80,415,788 | | - | - |
| Carpets | 11,047,043 | | | - |
| KES | - | | | 40,650,962 |
| ALJ | 5,807,868 | | 28,056,895 | 8,168,560 |
| Consolidated | 97,270,699 | | 28,056,895 | 48,819,522 |
| | | | | |
| Total liabilities | | | | |
| Faneuil | 40,548,053 | | - | - |
| Carpets | 4,969,014 | | - | - |
| KES | - | | - | 48,325,366 |
| ALJ | 3,926,185 | | 298,466 | 13,804,999 |
| Consolidated | $ 49,443,252 | | $ 298,466 | $ 62,130,365 |

* Consolidated adjusted EBITDA means net income plus depreciation and amortization, non-cash stock based compensation, net interest expense, other income (loss) and income tax (expense) benefit. Consolidated adjusted EBITDA is not calculated in accordance with GAAP and should not be considered as an alternative to net income/(loss), operating income or any other performance measures derived in accordance with GAAP or to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. This non-GAAP measure is provided as a supplement to financial results prepared in accordance with GAAP because management believes that it is a useful performance measure and management uses it for reviewing financial results and for budgeting and planning purposes. EBITDA measures are not calculated in the same manner by all companies and, accordingly, may not be an appropriate measure for comparison. A reconciliation of Consolidated adjusted EBITDA to operating income, the most directly comparable GAAP measure, can be obtained by subtracting depreciation and amortization and non-cash stock based compensation from Consolidated adjusted EBITDA.

**8. Accounts Receivable**

The Company's accounts receivable are summarized as follows at September 30, 2014, 2013 and 2012:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Accounts receivables | $ 24,518,566 | $ - | $ 12,083,071 |
| Unbilled receivables | 2,539,225 | - | - |
| Less: Allowance for doubtful accounts | (1,615,964) | - | (534,447) |
| Accounts receivable, net | $ 25,411,827 | $ - | $ 11,548,624 |

**9. Inventories**

Inventories are comprised of the following at September 30, 2014, 2013 and 2012:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Raw materials and scrap | $ - | $ - | $ 2,268,113 |
| Semi-finished goods/Work in process | 113,729 | - | 10,986,267 |
| Finished goods | 1,885,299 | - | 10,751,505 |
| Total | $ 1,999,028 | $ - | $ 24,005,885 |

**10. Property, Plant and Equipment**

Property, plant and equipment at September 30, 2014, 2013, and 2012 consisted of the following:

| | September 30, 2014 | September 30, 2013 | September 30, 2012 |
|---|---|---|---|
| Computer and office equipment | $ 6,869,347 | $ - | - |
| Computer software | 6,749,582 | - | - |
| Furniture and fixtures | 2,446,621 | - | - |
| Leasehold improvements | 3,093,982 | - | - |
| Warehouse equipment | 139,078 | - | - |
| Construction in progress | 380,077 | - | - |
| Vehicles | 8,598 | - | 6,450 |
| Land | | - | 142,498 |
| Buildings and improvements | | - | 572,497 |
| Machinery and equipment | | - | 4,456,032 |
| Total | 19,687,285 | - | 5,177,477 |

| | | | |
|---|---|---|---|
| Less: Accumulated depreciation and amortization | (10,626,241) | - | (2,934,624) |
| | $ 9,061,044 | $ - | 2,242,853 |

Depreciation and amortization expense for the twelve months ended September 30, 2014, 2013 and 2012 was $3,009,249, $0, and $60,112, respectively.

**11. Intangible Assets**

Intangible assets at September 30, 2014, 2013 and 2012 consisted of the following:

| | September 30, 2014 | September 30, 2013 | September 30, 2012 |
|---|---|---|---|
| Customer relationships | $ 13,570,000 | $ - | $ - |
| Trade name | 2,020,000 | - | - |
| Internal software | 580,014 | - | - |
| Non-compete agreements | 2,020,000 | | - |
| Contract backlog | 80,000 | - | - |
| Total | 18,270,014 | - | - |
| Less: Accumulated amortization | (1,490,556) | - | - |
| | $ 16,779,458 | $ - | $ - |

Amortization expense for the twelve months ended September 30, 2014, 2013 and 2012 was $1,490,556, $0 and $0, respectively.

Estimated future amortization expenses is as follows:

| For the twelve months ending: | |
|---|---|
| 2015 | $ 1,670,168 |
| 2016 | 1,748,002 |
| 2017 | 1,730,502 |
| 2018 | 1,678,002 |
| 2019 | 1,587,502 |
| Thereafter | 8,365,282 |
| | $ 16,779,458 |

**12. Goodwill**

Goodwill at September 30, 2014, 2013 and 2012 consisted of the following:

| | September 30, 2014 | September 30, 2013 | September 30, 2012 |
|---|---|---|---|
| Trained and assembled workforce | $ 11,400,000 | $ - | |
| Residual goodwill | 10,883,308 | - | |
| Total | $ 22,283,308 | $ - | |

**13. Investments**

In September 2009, the Company invested $212,500 in Bellator Sport Worldwide, LLC ("Bellator") an early development stage company specialized in the promotion, marketing, and development of mixed martial arts. During the twelve months ended September 30, 2010 the Company invested $29,269 in Bellator. During the twelve months ended September 30, 2011, the Company recognized a $151,541 loss on the investment in Bellator by writing down the investment to $90,228 as of September 30, 2011. During the twelve months ended September 30, 2013, the Company invested $11,849 in Bellator, increasing the investment to $102,077 as of September 30, 2014 and 2013.

**14. Line of Credit and Notes Payable – Faneuil**

*Line of credit and term loan with M&T Bank*
On September 30, 2014, Faneuil has refinanced its $25.0 million Harland Clarke Note and its $5 million Senior Credit Facility with M&T Bank (see below). Faneuil owed $21.6 million inclusive of accrued interest remaining on the Harland Clarke Note, and at closing paid down $2.6 million from cash on hand, leaving $19.0 million, which was refinanced under a ("Term Loan") with M&T Bank. The $19.0 million term loan amortizes over a period of 60 months at $316,667 per month plus accrued interest at a rate of Libor plus 3.75%, declining to Libor plus 2.50% upon obtaining certain ratios. Faneuil also refinanced its $5.0 million Senior Credit Facility ("Revolver") with M&T Bank, which, as refinanced, has a two-year term and accrues interest at a rate of Libor plus 2.5%. The Term Loan and Revolver are guaranteed by Faneuil and secured by a lien on all of the corporate assets of Faneuil. As of September 30, 2014, Faneuil owed $19.0 million on the term loan. As of September 30, 2014, there were no amounts outstanding under the Revolver.

On October 18, 2013, Faneuil entered into the initial line of credit facility agreement, providing for an asset based $5.0 million revolving line of credit with M&T Bank. The revolver was subject to customary conditions precedent as well as a borrowing base limitation. The credit facility accrued interest at Libor plus 2.5% and is secured by substantially all of the assets of the Faneuil. The credit facility contained customary representations, warranties and covenants, including a financial covenant requiring the borrowers to maintain a certain debt service coverage ratio.

A Subordination and Intercreditor Agreement was also signed on October 18, 2013, by and among Faneuil and Harland Clarke Holdings Corp. (Harland Clarke), pursuant to which the Harland Clarke Note was subordinated to the credit facility. This agreement was terminated with the pay-off of the Harland Clarke Note on September 30, 2014. In conjunction with the acquisition of Faneuil, the $25.0 million Harland Clarke Note was issued by Faneuil. The note provided for a two-year maturity with interest in the first year at five percent (5%) and interest in the second year at seven and one half percent (7.5%). The Harland Clarke Note had mandatory payments of $1,000,000 per quarter. Faneuil's obligations under the Harland Clarke Note were secured by a pledge of the Faneuil stock held by ALJ, subject to certain limitations.

Future maturities for the next five fiscal years are as follows:

| | |
|---|---|
| 2015 | $ 3,800,000 |
| 2016 | 3,800,000 |
| 2017 | 3,800,000 |
| 2018 | 3,800,000 |
| 2019 | 3,800,000 |
| Thereafter | $ 19,000,000 |

**15. Line of Credit and Notes Payable – Carpets**

*Line of Credit*
On September 30, 2014, Carpets executed a $3.0 million Senior Credit Facility with M&T Bank ("Carpets Revolver"). The Carpets Revolver carries a term of 24 months and accrues interest at a rate of Libor plus 4.00%. The Carpets Revolver is secured by a first lien on all corporate assets of Carpets and its subsidiaries. The Carpets Revolver is guaranteed by Faneuil and secured by a lien on all of the corporate assets of Faneuil. As of September 30, 2014, there were no amounts outstanding under the Carpets Revolver.

*InterCompany Note Payable*

In April 2014, ALJ entered into a Note Payable to Carpets for $1.0 million. Interest accrues at 4.0% on the available balance and is due in full on December 15, 2015. As of September 30, 2014, $1.0 million remains outstanding and interest of approximately $16,500 was eliminated through an intercompany adjustment.

*Other Long Term Agreements*
Carpets has other agreements that consist of amounts due to third party vendors and tax agencies. The amounts are unsecured and non-interest bearing. As of September 30, 2014, Carpets owed $56,789 under these agreements, all of which are due during the year ending September 30, 2015.

**16. Note Payable – ALJ**

*M&T Note Payable*
On September 30, 2014, ALJ refinanced its related party note payable of $2 million due to Libra Securities (see below) with a $2.0 million Term Loan with M&T. The ALJ Term Loan amortizes over a period of 30 months at $66,667 per month plus accrued interest at a rate of Libor plus 3.75%. The ALJ Term Loan is secured by a first lien on all corporate assets owned by ALJ. The ALJ Term Loan is guaranteed by Faneuil and secured by a lien on all of the corporate assets of Faneuil.

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

**17. Historical 8% Subordinated Loans - KES**

The 8% Subordinated Loans consisted of a series of loans that were due from KES under a Subordinated Financing Agreement dated July 20, 2009 by and among KES, the lenders party thereto and Ableco, L.L.C. The 8% Subordinated Loans were subordinate to KES' senior secured credit facility. The 8% Subordinated Loans bore interest at 8% per annum, with interest payable annually. The 8% Subordinated Loans were secured by a second priority security interest in all of KES' assets. The 8% Subordinated Loans were repaid in full upon the sale of KES on February 5, 2013. As of September 30, 2012, KES owed $18,998,213 under these loans.

**18. Historical 13% Series A Preferred Stock**

In connection with the acquisition of KES, and pursuant to its articles of incorporation, KES issued 25,000 shares of its 13% Series A Preferred Stock with the following rights, preferences and privileges:

a. Dividend Rights. The holders of the 13% Series A Preferred Stock were entitled to receive cumulative dividends in cash at the rate of 13% per year on the face amount of $1,000 per share payable concurrent with the redemption of the 13% Series A Preferred Stock. The dividends were payable, when and as declared by KES' Board of Directors, out of funds legally available for that purpose, upon a liquidation event or upon redemption of the 13% Series A Preferred Stock.

b. Liquidation and Redemption. The 13% Series A Preferred Stock contained a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and was redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of KES' full and complete repayment of the 8% Subordinated Loans.

c. Convertibility and Voting Rights. The 13% Series A Preferred Stock was not convertible into any other security of the Company, and the holders thereof had no voting rights except with respect to any proposed changes in the preferences and special rights of such stock or except as granted to holders by law.

As a result of the sale of KES, on February 5, 2013, ALJ retired all outstanding shares of 13% Series A Preferred Stock for $11.9 million. As of September 30, 2012, KES owed $11,803,750 related to the Series A Preferred Stock.

**19. Commitments and Contingencies**

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

| For the twelve months ending: | | |
|---|---|---|
| 2015 | $ | 3,775,851 |
| 2016 | | 3,287,319 |
| 2017 | | 3,143,465 |
| 2018 | | 1,640,447 |
| Thereafter | | 755,541 |
| | $ | 12,602,623 |

During the twelve months ended September 30, 2014, rental expense under operating leases was $2,093,408.

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

| For the twelve months ending: | | |
|---|---|---|
| 2015 | $ | 48,881 |
| | | |
| Total minimum payments required | | 48,881 |
| Less executory costs | | 5,185 |
| Net minimum lease payments | | 43,696 |
| Less imputed interest at rates ranging from 0% to 5.22% | | 308 |
| Present value of net minimum lease payments | $ | 43,388 |

**20. Income Taxes**

For the twelve months ended September 30, 2014, 2013 and 2012, the Company had income tax expense due to taxable income from operations. The provision for income taxes related to continuing operations for the twelve months ended September 30, 2014, 2013 and 2012 consisted of the following:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Income tax expense – current | | | |
| Federal | $ 281,447 | $ 1,517,741 | $ 32,550 |
| State | 395,684 | 0 | 144,095 |
| | $ 677,131 | $ 1,517,741 | $ 176,645 |
| Income tax benefit – deferred | | | |
| Federal | $ 2,552,102 | $ 29,425,996 | $ 531,554 |
| State | 24,538 | 492,771 | (405,032) |
| Change in valuation allowance | (7,797,063) | (24,036,914) | (3,331,966) |
| | (5,220,423) | 5,881,853 | (3,205,444) |
| | $ (4,543,292) | $ 7,399,594 | $ (3,028,799) |

Significant components of the Company's deferred tax liabilities and assets as of September 30, 2014, 2013 and 2012 are as follows:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Net deferred tax assets: | | | |
| Net operating loss carryforwards | $ 57,340,070 | $ 59,363,399 | $ 87,694,526 |
| Accrued interest/dividends | - | - | 620,899 |
| Management incentive | - | - | 682,038 |
| Accrued health care cost | - | - | 130,133 |
| Accrued remediation cost | - | - | 28,736 |
| Allowance for doubtful accounts | 300,000 | - | 213,778 |
| Accrued expenses and prepaid expenses | 721,000 | - | - |
| Tax amortization below book | - | 9,915 | 2,028,882 |
| Other (AMT credit carryforward) | 2,034,706 | 1,870,708 | 167,543 |
| Deferred revenue | 660,000 | | |
| Net deferred tax asset | $ 61,055,776 | $ 61,244,022 | $ 91,566,535 |
| Net deferred tax liabilities | | | |
| Tax depreciation in excess of book | $ 6,295,627 | $ - | $ (461,050) |
| Asset retirement obligation | | | 57,304 |
| Net deferred tax liabilities | $ - | $ - | $ (403,746) |
| Total net deferred tax assets | $ 54,760,149 | $ 61,244,022 | $ 91,162,789 |
| Less Valuation Allowance | $ (54,760,149) | $ (61,244,022) | $ (85,280,936) |
| | $ - | $ - | $ 5,881,853 |

The difference between the federal statutory rate of 35% and the effective tax rate of (39.89%) for the year ended September 30, 2014 is mainly due to the change in the valuation allowance as indicated below:

| | |
|---|---|
| Federal tax at statutory rate | 35.00% |
| State tax, net of federal benefit | 2.99% |
| Permanent differences | .54% |
| Change in valuation allowance | (78.42%) |
| Net rate | (39.89%) |

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.

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carry-forward. There has been significant positive evidence established by the Company to justify that only a partial valuation allowance is necessary. The Company has shown consistent profitability over the past three years. Management also projects continued taxable income. Management believes it will be able to recognize a portion of its NOLs over the coming years. A valuation allowance of $54,760,149 has been established against the net deferred tax asset of $54,760,149 as of September 30, 2014.

Effective October 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN48"). FIN48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ended September 30, 2014, 2013 or 2012.

At September 30, 2014, the Company had a net operating loss carry-forward for federal income tax purposes of approximately $164 million that expires from 2020 through 2028. The use of approximately $36 million of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

**21. 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.

**22. Stock Options and Share-based Compensation**

*ALJ.* The Company determines the fair value of all stock-based compensation, including stock options and warrants, by using the Black-Scholes option-pricing model. Included in the selling, general and administrative expenses for the twelve months ended September 30, 2014, 2013 and 2012, the Company recognized share-based compensation expense of $53,000, $0 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 twelve months ended September 30, 2014. These options began vesting on January 1, 2014. For stock options granted during the twelve months ended September 30, 2014, the Company computed volatility of 807% and a risk-free interest rate of 0.70%. Volatility was computed over the most recent period commensurate with the expected term of the options. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the stock options. The Company has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly uses an expected dividend yield of zero.

The following summarizes stock option activity during the twelve months ended September 30, 2014, 2013 and 2012.

| | Number of Shares | Weighted-Average Exercise Price |
|---|---|---|
| Balance at September 30, 2011 | 2,800,000 | $0.38 |
| Exercised | 0 | 0.00 |
| Granted | 0 | 0.00 |
| Forfeited or expired | (200,000) | 0.30 |
| Balance at September 30, 2012 | 2,800,000 | $0.38 |
| Exercised | (400,000) | 0.23 |
| Granted | 1,175,000 | 1.00 |
| Forfeited or expired | 0 | 0.00 |
| Balance at September 30, 2013 | 3,375,000 | $0.62 |
| Exercised | 0 | 0.00 |
| Granted | 100,000 | 1.60 |
| Forfeited or expired | 0 | 0.00 |
| Balance at September 30, 2014 | 3,475,000 | $0.65 |

The following table summarizes outstanding and exercisable options for the twelve months ended September 30, 2014, 2013, and 2012.

| | | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|---|
| Fiscal Year Ended | Range of Exercise Price | Number Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| 2014 | $0.40 - $1.60 | 3,475,000 | 4.6 years | $0.65 | 3,400,000 | $0.62 |
| 2013 | $0.40 - $1.00 | 3,375,000 | 5.5 years | $0.62 | 2,200,000 | $0.42 |
| 2012 | $0.23 - $0.59 | 2,600,000 | 4.9 years | $0.38 | 2,600,000 | $0.38 |

During the twelve months ended September 30, 2014, the Company issued 80,099 restricted shares to the Board of Directors as part of their compensation. The restricted shares vested monthly over a one year period. The restricted shares were issued at a share price of $2.33 per share. As of September 30, 2014, 13,412 shares were fully vested. The Company issued 53,648 restricted shares to the Executive Chairman as his full compensation for 2014, at a share price of $2.33. These shares were fully vested upon issuance.

During the twelve months ended September 30, 2013, the Company issued 76,215 restricted shares to the Board of Directors as part of their compensation. These restricted shares vest monthly over a one year period. The restricted shares were issued at price of $0.82 per share. As of September 30, 2014, all of the restricted shares were fully vested.

Share based compensation expense related to the issuance of restricted stock grants during the twelve months ended September 30, 2014, 2013 and 2012 was $246,226, $62,500, and $18,273, respectively.

*Faneuil.* On October 18, 2013, the board of directors of Faneuil adopted the Faneuil, Inc. 2013 Stock Incentive Plan (the "Plan"). The aggregate number of shares of Faneuil's common stock which may be issued pursuant to awards under the Plan

is 80,000 shares. Faneuil recognized share-based compensation expense of $176,713, included in the selling, general and administrative expenses for the twelve months ended September 30, 2014.

On October 18, 2013, the board of directors of Faneuil granted an option to purchase 60,000 shares of Faneuil's common stock under the Plan to Ms. Van Buren, the Chief Executive Officer of Faneuil. Such option vested with respect to one-third of the shares subject to the option on October 18, 2013 and one-half of the remaining unvested shares will vest on each of October 18, 2014 and October 18, 2015, conditioned on Ms. Van Buren's continuous service to Faneuil. Such option expires on October 18, 2023. For stock options granted by Faneuil during the twelve months ended September 30, 2014, the Company computed volatility of 26.54% and a risk-free interest rate of 0.33%. Volatility was computed based on similar public company's volatility over the most recent period commensurate with the expected term of the stock options. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options. Faneuil has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly uses an expected dividend yield of zero.

**23. Uncertainties and Contingencies**

As of September 30, 2014, management was not aware of any legal contingencies involving the Company. In the opinion of management, any potential matters involve such amounts that unfavorable disposition would not have a material adverse effect on the financial position or results of operations of the Company.

**24. 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 Anna Van Buren, a director of the Company and Faneuil, an option to purchase 60,000 shares of Faneuil's common stock under the Plan. Such option vested with respect to one-third of the shares subject to the option on October 18, 2013 and another one-third on October 18, 2014. The remaining one-third will vest on October 18, 2015, conditioned on Ms. Van Buren's continuous service to Faneuil. Such option automatically vests and becomes exercisable in full upon the consummation of certain corporate transactions. The exercise price for such option is $30.43 per share (the same price paid by ALJ and Ms. Van Buren to acquire their shares of Faneuil). Such option expires on October 18, 2023.

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

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

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

On March 14, 2014, the Board agreed to increase the compensation of Mr. Ravich from $60,000 to $125,000 per year. On July 21, 2014, the Board approved Mr. Ravich receiving his compensation for 2014 in the form of 53,648 shares of stock.

Prior to ALJ's sale of KES, KES was party to a Management Agreement with Pinnacle. Pinnacle was entitled to a monthly management fee and a management incentive fee as provided in the Management Agreement. John Scheel, a director of the Company and formerly a director of KES, is a principal of and receives compensation from Pinnacle. For the twelve months ended September 30, 2014, 2013 and 2012, Pinnacle's management fees were $0, $5,275,000, and $2,405,096, respectively. The Pinnacle Management fees for the year ended September 30, 2013 included $5,100,000 in termination fees. In addition, the Management Agreement provided for an automatic termination following a change of control of KES, with a termination fee payable in an amount equal to two times the sum of the monthly management fees and management incentive fees paid during the prior 12-month period. In connection with the sale of KES, the Management Agreement terminated as of the merger closing and Pinnacle received a termination payment of $5,146,000, which reflects a discount of approximately $0.5 million agreed to by Pinnacle by utilizing the 2012 fiscal results instead of the 2011 fiscal results in calculating such fee.

Jess Ravich, who is the Executive Chairman of the Company, a director of Faneuil and formerly 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 thereon. 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 thereon.

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.

## PART E

## 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 | Agreement and Plan of Merger dated November 18, 2012 by and among KES Acquisition Company, ALJ Regional Holdings, Inc., Optima Specialty Steel, Inc. and KES Optima Acquisition Inc. (incorporated by reference to Exhibit 1 to the Company's Current Report dated November 18, 2012 available at www.pinksheets.com). |
| 7 | Form of Stockholder Support Agreement dated November 18, 2012 by and among Optima Specialty Steel, Inc. and the stockholders of ALJ Regional Holdings, Inc. listed on Schedule A thereto (incorporated by reference to Exhibit 2 to the Company's Current Report dated November 18, 2012 available at www.pinksheets.com). |
| 8 | Form of Voting and Tender Agreement dated November 18, 2012 by and among ALJ Regional Holdings, Inc. and the stockholders of ALJ Regional Holdings, Inc. a signatory thereto (incorporated by reference to Exhibit 3 to the Company's Current Report dated November 18, 2012 available at www.pinksheets.com). |
| 9* | Amended and Restated Loan and Security Agreement, dated September 30, 2014, by and among Faneuil, Inc., Faneuil Toll Operations LLC and M&T Bank. |
| 10* | Loan and Security Agreement, dated September 30, 2014, by and between ALJ Regional, Inc. and M&T Bank. |
| 11* | Loan and Security Agreement, dated September 30, 2014, by and between FLOORS-N-MORE, LLC and M&T Bank. |

* Filed herewith.

**EXHIBIT NO. 9**

# AMENDED AND RESTATED
# LOAN AND SECURITY AGREEMENT

Between

**FANEUIL, INC.,**
A Delaware Corporation

and

**FANEUIL TOLL OPERATIONS LLC,**
A Delaware Limited Liability Company

"BORROWER"

And

**M&T BANK,**
A New York Banking Corporation

"LENDER"

**$5,000,000.00 REVOLVING LINE OF CREDIT**
**AND**
**$19,000,000.00 TERM LOAN**

Dated: September 30, 2014

**AMENDED AND RESTATED**
**LOAN AND SECURITY AGREEMENT**

**THIS AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT** is dated as of September ___, 2014 by and between **FANEUIL, INC.**, a Delaware corporation, and **FANEUIL TOLL OPERATIONS LLC**, a Delaware limited liability company (each a "BORROWER" and collectively, the "BORROWERS") and **M&T BANK** ("LENDER").

**RECITALS**

Pursuant to the terms of a Modification Agreement of even date herewith between the BORROWERS and the LENDER, the Loan And Security Agreement dated October 18, 2013 between the BORROWERS and the LENDER is amended and restated pursuant to the terms and provisions of this Amended And Restated Loan And Security Agreement.

**NOW, THEREFORE**, in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1.
DEFINITIONS

As used in this Amended And Restated Loan And Security Agreement, the terms set forth in this Article 1 have the meanings set forth below, unless the specific context of this Amended And Restated Loan And Security Agreement clearly requires a different meaning. Terms defined in this Article 1 or elsewhere in this Amended And Restated Loan And Security Agreement are in all capital letters throughout this Amended And Restated Loan And Security Agreement. The singular use of any defined term includes the plural and the plural use includes the singular.

Section 1.1. Account Debtor. The term "ACCOUNT DEBTOR" means collectively each PERSON: (a) to or for whom either BORROWER has provided or has agreed to provide any goods or services; or (b) which owes either BORROWER any sum of money as a result of goods sold or services provided by either BORROWER; or (c) which is the maker or endorser on any INSTRUMENT payable to either BORROWER or otherwise owes either BORROWER any sum of money on account of any loan or other payment obligation. With respect to each RECEIVABLE which is payable by any GOVERNMENTAL AUTHORITY, "ACCOUNT DEBTOR" includes, without limitation, the agency, instrumentality or official which has the duty of remitting or causing the remittance of the amounts owing on such ACCOUNT or other RECEIVABLE.

Section 1.2. Account, As-Extracted Collateral, Chattel Paper, Deposit Account, Document, Equipment, Fixtures, General Intangibles, Goods, Instrument, Inventory, Investment Property, And Letter-Of-Credit Right. The terms "ACCOUNT," "AS-EXTRACTED COLLATERAL," "CHATTEL PAPER," "DEPOSIT ACCOUNT," "DOCUMENT," "EQUIPMENT," "FIXTURES," "GENERAL INTANGIBLES," "GOODS," "INSTRUMENT," "INVENTORY," "INVESTMENT PROPERTY," and "LETTER-OF-CREDIT RIGHT" shall have the same respective meanings as are given to those terms in the UCC.

Section 1.3. Affiliate. The term "AFFILIATE" means collectively any PERSON: (a) that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with either BORROWER, including, without limitation, the officers, managers and directors of either BORROWER; (b) that directly or beneficially owns or holds ten percent (10%) or more of any equity interests in either BORROWER; or (c) ten percent (10%) or more of whose equity

interests are owned directly or controlled by either BORROWER. As used herein, the term "control" (including, with correlative meanings, the terms "controlled by" and "under common control with") shall mean possession, directly or indirectly, of the power to direct the management or policies of a PERSON, whether through ownership of equity interests, by contract or otherwise.

Section 1.4. Agreement. The term "AGREEMENT" means this Amended And Restated Loan And Security Agreement, as amended, extended, or modified from time to time by the parties hereto, as well as all schedules, exhibits and attachments hereto.

Section 1.5. ALJ Holdings. The term "ALJ HOLDINGS" means ALJ Regional Holdings, Inc., a Delaware corporation.

Section 1.6. ALJ Loan. The term "ALJ LOAN" means the term loan from the LENDER to ALJ HOLDINGS in the original principal amount of Two Million Dollars ($2,000,000.00).

Section 1.7. Anti-Terrorism Order. The term "ANTI-TERRORISM ORDER" means the Executive Order 132264. 66 Fed. Reg. 49079 (September 25, 2001) (Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit or Support Terrorism) and any similar Presidential Executive Order.

Section 1.8. Applicable Margin. The term "APPLICABLE MARGIN" means three and seventy-five one-hundredths percent (3.75%); provided that such percentage shall be reduced to two and one-half percent (2.5%) when either (i) the PERMITTED OVERMARGIN is permanently reduced to Zero Dollars ($0) at a time when there is no EVENT OF DEFAULT, or (ii) the BORROWERS' quarterly financial statements and certificates of no default delivered to the LENDER pursuant to Sections 5.12.3 and 5.12.6 hereof for two consecutive fiscal quarters evidence that the BORROWERS' LEVERAGE RATIO as of the end of both of such fiscal quarters was less than 1.5 to 1.0; further provided, however, if the APPLICABLE MARGIN is reduced to two and one-half percent (2.5%) pursuant to clause (ii) above and thereafter, during a period in which the PERMITTED OVERMARGIN has not yet been permanently reduced to Zero Dollars, the BORROWER'S LEVERAGE RATIO, as of the end of any subsequent fiscal quarter, is 1.5 to 1.0 or greater, the APPLICABLE MARGIN shall increase to three and seventy-five one-hundredths percent (3.75%) until one of the conditions in clause (i) or clause (ii) above is thereafter satisfied.

Section 1.9. Bank Products. The term "BANK PRODUCTS" means any one or more of the following types of services or facilities extended to either BORROWER by the LENDER or an AFFILIATE of the LENDER: (a) Automated Clearing House (ACH) transactions and other similar money transfer services; (b) cash management, lockbox services and other similar services; (c) establishing and maintaining deposit accounts; (d) credit cards or stored value cards; and (e) other similar or related bank products and services.

Section 1.1. Borrowing Base. The term "BORROWING BASE" means an amount equal to: (a) eighty-five percent (85%) of the face amount (less maximum discounts, credits and allowances which may be taken by or are granted to ACCOUNT DEBTORS in connection therewith) of billed ELIGIBLE GOVERNMENT ACCOUNTS; plus (b) eighty percent (80%) of the face amount (less maximum discounts, credits and allowances which may be taken by or are granted to ACCOUNT DEBTORS in connection therewith) of billed ELIGIBLE COMMERCIAL ACCOUNTS; plus (c) the PERMITTED OVERMARGIN; minus (d) the principal balance outstanding under the TERM LOAN, minus (e) the principal balance outstanding under the ALJ LOAN, minus (f) the commitment dollar cap on the FLOORS LOAN (which amount as of the date of CLOSING is $3,000,000.00), minus (g) such reserves as the LENDER reasonably and in good faith deems appropriate from time to time.

Section 1.10. Boston Scientific Contingent Payment. The term "BOSTON SCIENTIFIC CONTINGENT PAYMENT" means Faneuil, Inc.'s contingent right to a pro-rated portion of approximately $4.2 million in cash previously paid to Boston Scientific Corporation in connection with the BOSTON SCIENTIFIC CONTRACT to which Faneuil, Inc. would be entitled in the event that Boston Scientific Corporation terminates the BOSTON SCIENTIFIC CONTRACT for convenience.

Section 1.11. Boston Scientific Contract. The term "BOSTON SCIENTIFIC CONTRACT" means the Master Services Agreement for Medical Device Tracking Services and System Development by and between the Company and Boston Scientific Corporation, dated September 28, 2012.

Section 1.12. Boston Scientific Disposition. The term "BOSTON SCIENTIFIC DISPOSITION" means a disposition of the BOSTON SCIENTIFIC CONTINGENT PAYMENT should Boston Scientific Corporation terminate the BOSTON SCIENTIFIC CONTRACT for any reason other than convenience.

Section 1.13. Business Day. The term "BUSINESS DAY" means any day other than a Saturday, Sunday, or other day on which commercial banking institutions in the State of Maryland are required to be closed.

Section 1.14. Canadian Subsidiary. The term "CANADIAN SUBSIDIARY" means Faneuil Canada, Inc.

Section 1.15. Capital Adequacy Requirement. The term "CAPITAL ADEQUACY REQUIREMENT" means any LAW imposing any capital adequacy requirement or any other similar requirement (including but not limited to the capital adequacy regulations contained in Parts 3, 208 and 225 of Title 12 of the Code of Federal Regulations, as amended), any change in such LAWS or in the interpretation or application thereof, and any request or directive regarding capital adequacy (whether or not having the force of law) from any central bank or government authority.

Section 1.16. Capital Lease. The term "CAPITAL LEASE" means a lease with respect to which the lessee's obligations thereunder should, in accordance with G.A.A.P., be capitalized and reflected as a liability on the balance sheet of the lessee.

Section 1.17. Capital Lease Obligations. The term "CAPITAL LEASE OBLIGATIONS" means any indebtedness incurred as a lessee pursuant to a CAPITAL LEASE.

Section 1.18. Capital Stock. The term "CAPITAL STOCK" means (i) with respect to any PERSON that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, and (ii) with respect to any PERSON that is not a corporation, any and all partnership, membership or other equity interests of such Person.

Section 1.19. Cash Flow. The term "CASH FLOW" means for the period of determination, the COMPANIES' EBITDA minus UNFUNDED CAPITAL EXPENDITURES, minus the aggregate amount of cash payments made pursuant to clause (b) of Section 6.5 for such period, minus cash taxes, minus dividends or payments paid to shareholders, in each case without duplication and all as determined in accordance with G.A.A.P.

Section 1.20. Change of Control. The term "CHANGE OF CONTROL" means with respect to a party, the occurrence of any of the following events: (a) any consolidation or merger of such party with or into any other entity in which the holders of such party's outstanding voting equity interests immediately before such consolidation or merger do not, immediately after such consolidation or merger,

retain equity interests representing a majority of the voting power of the surviving entity or stock representing a majority of the voting power of an entity that wholly owns, directly or indirectly, the surviving entity; (b) the sale, transfer or assignment of securities of such party representing a majority of the voting power of all of such party's outstanding voting securities to an acquiring party or group; or (c) the sale of all or substantially all of such party's assets.

Section 1.21. Charges. The term "CHARGES" means all federal, state, county, city, municipal, local, foreign or other governmental taxes, premiums and other amounts (including premiums and other amounts owed to the Pension Benefit Guaranty Corporation at the time due and payable), levies, assessments, charges, LIENS, claims or encumbrances upon or relating to (a) the COLLATERAL, (b) the OBLIGATIONS, (c) the employees, payroll, income or gross receipts of either BORROWER, (d) either BORROWER'S ownership or use of any properties or other assets, or (e) any other aspect of either BORROWER'S business.

Section 1.22. Closing. The term "CLOSING" means the execution and delivery of this AGREEMENT, the NOTE, and various other LOAN DOCUMENTS. The date of CLOSING is the date written above as the date of this AGREEMENT.

Section 1.23. Code. The term "CODE" means the Internal Revenue Code of 1986, as amended, and all Treasury regulations, revenue rulings, revenue procedures or announcements issued thereunder.

Section 1.24. Collateral. The term "COLLATERAL" means all of the tangible and intangible assets and personal property of each BORROWER, wherever located, whether now owned or hereafter acquired by either BORROWER, together with all substitutions therefore, and all replacements and renewals thereof, and all accessions, additions, replacement parts, manuals, warranties and packaging relating thereto, including but not limited to the following tangible and intangible assets and property rights of each BORROWER: (a) ACCOUNTS; (b) AS-EXTRACTED COLLATERAL; (c) CHATTEL PAPER; (d) DEPOSIT ACCOUNTS; (e) DOCUMENTS; (f) EQUIPMENT; (g) FIXTURES; (h) GENERAL INTANGIBLES; (i) GOODS; (j) INSTRUMENTS; (k) INVENTORY, including returned, rejected, or repossessed INVENTORY and rights of reclamation and stoppage in transit with respect to INVENTORY; (l) INVESTMENT PROPERTY; (m) LETTER-OF-CREDIT RIGHTS; (n) RECEIVABLES; (o) INTELLECTUAL PROPERTY; and (p) all RECORDS relating to or pertaining to any of the above listed COLLATERAL; provided that, notwithstanding the foregoing, the COLLATERAL shall not include any EXCLUDED PROPERTY.

Section 1.25. Collateral Account. The term "COLLATERAL ACCOUNT" means a bank account designated by the LENDER from which the LENDER alone has power of access and withdrawal.

Section 1.26. Commercial Account. The term "COMMERCIAL ACCOUNT" means the commercial checking account to be established and maintained by a BORROWER with the LENDER and which may be utilized as the means of advancing funds under the REVOLVING LOAN.

Section 1.27. Companies. The term "COMPANIES" means, collectively, the BORROWERS and the CANADIAN SUBSIDIARY.

Section 1.28. Copyrights. The term "COPYRIGHTS" means, collectively, copyrights (whether statutory or common law, whether established, registered or recorded in the United States or any other country or any political subdivision thereof, and whether published or unpublished) and all mask works (as such term is defined in 17 U.S.C. Section 901, *et seq.*), together with any and all: (a) registrations and applications therefore; (b) rights and privileges arising under applicable law with respect to such copyrights; (c) renewals and extensions thereof; (d) income, fees, royalties, damages, claims and

payments now or hereafter due and/or payable with respect thereto, including damages and payments for past, present or future infringements or other violations thereof; (e) rights to sue for past, present or future infringements thereof; and (f) rights corresponding thereto throughout the world.

Section 1.29. Debt Service. The term "DEBT SERVICE" means the sum of: (a) current maturities of long-term debt (including the principal components of payments on CAPITAL LEASES), as determined in accordance with G.A.A.P., plus (b) interest expense for the period of determination.

Section 1.30. Default. The term "DEFAULT" means any event, occurrence or omission which, with the giving of notice, the passage of time, or both, would constitute an EVENT OF DEFAULT.

Section 1.31. Dollar Cap. The term "DOLLAR CAP" means Five Million Dollars ($5,000,000.00).

Section 1.32. Domestic Subsidiary. The term "DOMESTIC SUBSIDIARY" means any SUBSIDIARY organized under the laws of the United States, any State thereof or the District of Columbia.

Section 1.33. EBITDA. The term "EBITDA" means the COMPANIES' net income, plus, to the extent deducted in determining such net income, interest expense, depreciation, amortization and income taxes, all as determined in accordance with G.A.A.P.

Section 1.34. Eligible Accounts. The term "ELIGIBLE ACCOUNTS" means those ACCOUNTS which are acceptable to the LENDER in its good faith reasonable credit judgment. The criteria for eligibility may be fixed and revised from time to time by the LENDER in its good faith discretion. An ACCOUNT in no event shall be deemed eligible unless: (a) the ACCOUNT arises from goods sold or leased or from services performed in the ordinary course of business of either BORROWER; (b) it is a true and correct statement in all material respects of bona fide indebtedness incurred in the amount of the ACCOUNT for merchandise sold to or services rendered to the applicable ACCOUNT DEBTOR; (c) the delivery of the goods or the performance of the services has been completed; (d) no return, rejection, or repossession has occurred; (e) the goods delivered or the services performed have been received by the ACCOUNT DEBTOR without dispute, objection, complaint, offset, defense, counterclaim, adjustment or allowance; (f) the ACCOUNT is not subject to any present or contingent (and no facts exist which are the reasonable basis for any future) offset, claim, deduction or counterclaim, dispute or defense in law or in equity on the part of such ACCOUNT DEBTOR, or any claim for credits, allowances, or adjustments by the ACCOUNT DEBTOR because of returned, inferior, or damaged INVENTORY or unsatisfactory services, or for any other reason, including without limitation, those arising on ACCOUNT of a breach of any express or implied warranty or representation; (g) the ACCOUNT DEBTOR'S obligation to pay the ACCOUNT is not subject to any repurchase obligation or return right, as with sales made on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval (except with respect to ACCOUNTS in connection with which ACCOUNT DEBTORS are entitled to return INVENTORY solely on the basis of the quality of such INVENTORY) or consignment basis; (h) the right to receive payment on such ACCOUNT is absolute and is not contingent upon the fulfillment of any ongoing condition whatsoever; (i) such ACCOUNT does not represent retainage, progress billing consisting of an invoice for goods sold or used or services rendered pursuant to a contract under which the ACCOUNT DEBTOR'S obligation to pay that invoice is subject to either BORROWER'S completion of further performance under such contract; (j) such ACCOUNT does not represent a billing for any advance deposits received from ACCOUNT DEBTORS, represent pre-billed ACCOUNT balances, or represent ACCOUNTS due under installment billing plans; or represent COD or cash amounts on hand or in transit; (k) no more than ninety (90) days have elapsed from the earlier of the billing or invoice date and no more than sixty (60) days have elapsed from the due date and the ACCOUNT has not been converted to a promissory note; (l) no prior, contemporaneous, or subsequent

assignment, claim, LIEN, or security interest, other than that of the LENDER, applies to the ACCOUNT; (m) no bankruptcy or insolvency proceedings or payment moratoriums of any kind apply to the ACCOUNT; (n) the ACCOUNT DEBTOR is not, in the LENDER'S sole opinion, unlikely to pay because of death, incompetency, disappearance, potential bankruptcy, insolvency, liquidation, reorganization, arrangement, adjustment of debts, conservatorship, receivership, winding up, or other relief under the bankruptcy, insolvency, or similar laws of the United States, any state or territory thereof, or any foreign jurisdiction, now or hereafter in effect, the making of any general assignment by the ACCOUNT DEBTOR for the benefit of its creditors, the appointment of any receiver or trustee for the ACCOUNT DEBTOR or its assets, including, without limitation, the appointment of or taking possession by a "custodian," as defined in the United States Bankruptcy Code, the institution by or against the ACCOUNT DEBTOR of any other type of insolvency proceeding under the United States Bankruptcy Code or otherwise, or of any formal or informal proceeding for the dissolution or liquidation of, settlement of claims against, or winding up of affairs of, the ACCOUNT DEBTOR, the sale, assignment, or transfer of all of any material part of the assets of the ACCOUNT DEBTOR, the nonpayment generally by the ACCOUNT DEBTOR of its debts as they become due, or the cessation of business of the ACCOUNT DEBTOR as a going concern, damage to or disposition of the goods, default, or any other reason whatsoever; (o) the LENDER has not, by notice to either BORROWER, in the LENDER'S good faith reasonable credit judgment, deemed the ACCOUNT unsatisfactory for any reason; (p) the ACCOUNT does not arise under a bonded contract and no bonding company or surety asserts or has the ability to assert any claim based upon the legal doctrine of equitable subrogation, or under any other right to claim a LIEN into or right to payment of the ACCOUNT; (q) the ACCOUNT is not due from any director, officer or other employee of either BORROWER and is not due from any AFFILIATE of either BORROWER; (r) the ACCOUNT is not payable from any ACCOUNT DEBTOR located outside of the geographic boundaries of the United States unless such ACCOUNT is secured by an irrevocable letter of credit which is assigned and delivered to the LENDER or is covered by credit insurance assigned to the LENDER, in each case reasonably satisfactory to the LENDER as to form, amount and issuer; (s) the ACCOUNT is not payable from any ACCOUNT DEBTOR who is an individual, unless such ACCOUNT is fully secured by an irrevocable letter of credit or other form of credit support acceptable to the LENDER; (t) the applicable BORROWER is legally empowered to collect the ACCOUNT against the ACCOUNT DEBTOR in the jurisdiction in which the ACCOUNT DEBTOR is located; (u) the ACCOUNT is not payable by an ACCOUNT DEBTOR with respect to which more than fifty percent (50%) of the dollar amount of that ACCOUNT DEBTOR'S ACCOUNTS to the BORROWERS are more than ninety (90) days due from the earlier of the billing or invoice date, more than sixty (60) days due from the due date, or converted to a promissory note; (v) the ACCOUNT does not arise from any contract or agreement with an embargoed or prohibited foreign government or country as published by the United Stated Department of State or as published in the Federal Register; (w) the ACCOUNT is not evidenced by a judgment, an INSTRUMENT or CHATTEL PAPER; (x) such ACCOUNT has not been generated from the sale or distribution of products prohibited for sale or distribution by either BORROWER under applicable LAWS, including federal regulations or specific licensing restrictions; (y) such ACCOUNT does not arise from a contract or agreement which by its terms prohibits assignment of such ACCOUNT; (z) such ACCOUNT is not in default and is not due from an ACCOUNT DEBTOR having credit balances over ninety (90) days from invoice date that may appear in the "over 90 day" column on the applicable BORROWER'S ACCOUNTS receivable aging; (aa) the applicable BORROWER owns the ACCOUNT and the LENDER has a perfected first priority security interest therein; and (bb) the ACCOUNT is not subject to any LIEN other than the LIEN of the LENDER; (cc) the ACCOUNT DEBTOR is not the United States government or a political subdivision thereof, or any state, county or municipality or department, agency or instrumentality thereof, unless the LENDER has determined in its good faith reasonable credit judgment that there are no applicable laws, rules or regulations that: (i) would prohibit or prevent the granting of a first priority LIEN in favor of the LENDER on such ACCOUNTS, or (ii) would prohibit, prevent or delay the assignment or collection of such ACCOUNTS directly from such ACCOUNT DEBTOR or the applicable BORROWER, or (iii) would require the LENDER to obtain any approvals from such ACCOUNT DEBTOR in connection therewith unless the LENDER, in its sole

discretion, has agreed to the contrary in writing and the BORROWERS, if requested by the LENDER, has complied with respect to such obligation with the Federal Assignment of Claims Act of 1940, or any applicable state, county or municipal law restricting the assignment thereof with respect to such obligation; (dd) the ACCOUNT is payable in United States Dollars; and (ee) the ACCOUNT is not due from an ACCOUNT DEBTOR headquartered in or issuing payment from an "embargoed" or "prohibited" country, as published in the United States Department of State or as published in the Federal Register. An ACCOUNT which otherwise satisfies the LENDER'S criteria for eligibility shall also be subject to the following eligibility limitations: (i) if the ACCOUNT is payable by an ACCOUNT DEBTOR to whom either BORROWER owes money or has any liability of any kind, only the portion of the ACCOUNT in excess of the amount owed by or the liability of either BORROWER to the ACCOUNT DEBTOR may be eligible; (ii) to the extent the ACCOUNT contains finance charges, service charges, late charges, delivery charges or sales taxes, such finance charges, service charges, late charges, delivery charges or sales taxes shall not be eligible; and (iii) if the ACCOUNT is due from an ACCOUNT DEBTOR or member of a group of related ACCOUNT DEBTORS whose ACCOUNTS in the aggregate constitute in excess of twenty-five percent (25%) of all of the ACCOUNTS of the BORROWERS, only the portion of the aggregate amount of the ACCOUNTS from that ACCOUNT DEBTOR or group of related ACCOUNT DEBTORS which does not exceed twenty-five percent (25%) of all of the ACCOUNTS of the BORROWERS may be eligible.

Section 1.35. Employee Benefit Plan. The term "EMPLOYEE BENEFIT PLAN" means an "employee benefit plan" as defined in Section 3(3) of ERISA.

Section 1.36. Environmental Laws. The term "ENVIRONMENTAL LAWS" means individually or collectively any local, state or federal LAW, statute, rule, regulation, order, ordinance, common law, permit or license term or condition, or state superlien or environmental clean-up or disclosure statutes pertaining to the environment or to environmental contamination, regulation, management, control, treatment, storage, disposal, containment, removal, clean-up, reporting, or disclosure, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as now or hereafter amended (including, but not limited to, the Superfund Amendments and Reauthorization Act); the Resource Conservation and Recovery Act, as now or hereafter amended (including, but not limited to, the Hazardous and Solid Waste Amendments of 1984); the Toxic Substances Control Act, as now or hereafter amended; the Clean Water Act, as now or hereafter amended; the Safe Drinking Water Act, as now or hereafter amended; or the Clean Air Act, as now or hereafter amended.

Section 1.37. EPA Permit. The term "EPA PERMIT" has the meaning given that term in Section 4.18 of this AGREEMENT.

Section 1.38. ERISA. The term "ERISA" means the Employee Retirement Income Security Act of 1974 and regulations issued thereunder, as amended from time to time and any successor statute.

Section 1.39. ERISA Affiliate. The term "ERISA AFFILIATE" means, in relation to any PERSON, any trade or business (whether or not incorporated) which is a member of a group of which that PERSON is a member and which is under common control within the meaning of the regulations promulgated under Section 414 of the CODE.

Section 1.40. ERISA Liabilities. The term "ERISA LIABILITIES" means the aggregate of all unfunded vested benefits under any employee pension benefit plan, within the meaning of Section 3(2) of ERISA, of either BORROWER or any ERISA AFFILIATE of either BORROWER under any plan covered by ERISA that is not a MULTIEMPLOYER PLAN and all potential withdrawal liabilities of either BORROWER or any ERISA AFFILIATE under all MULTIEMPLOYER PLANS.

Section 1.41. Event Of Default. The term "EVENT OF DEFAULT" means any of the events set forth in Article 7 of this AGREEMENT, provided that any requirement for the giving of notice, the lapse of time, or both, or any other expressly stated condition, has been satisfied.

Section 1.42. Excess Cash Flow. The term "EXCESS CASH FLOW" means, for any FISCAL YEAR, the amount equal to the COMPANIES' EBITDA minus the aggregate amount of the COMPANIES' cash taxes, cash interest, UNFUNDED CAPITAL EXPENDITURES, scheduled principal payments upon all INDEBTEDNESS (including the principal components of payments on CAPITAL LEASES) and payments made pursuant to Section 2 of the TAX SHARING AGREEMENT.

Section 1.43. Excluded Property. The term "EXCLUDED PROPERTY" means (i) the portion of any equity interests in excess of 65% of the total combined voting power of all classes of equity interests entitled to vote (within the meaning of Section 1.956-2(c)(2) of the United States Treasury regulations) of any foreign SUBSIDIARY; (ii) any right, title or interest in any permit, license or any contractual obligation entered into by either BORROWER or any SUBSIDIARY, any directly held investment property (as defined in the UCC) or any general intangibles (as defined in the UCC) now or hereafter owned by either BORROWER or any SUBSIDIARY (A) that prohibits the creation by such BORROWER or SUBSIDIARY of a LIEN thereon or requires the consent of any PERSON other than either BORROWER and its AFFILIATES which consent has not been obtained as a condition to the creation of such LIEN or which would be breached or give any such PERSON the right to terminate it as a result of the creation of such LIEN, or (B) to the extent that any applicable LAWS prohibit the creation of a LIEN thereon, but only, in each case, to the extent and for so long as, such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective under Section 9-406, 9-407, 9-408, or 9-409 of the UCC or under any other applicable LAW any applicable laws; (iii) any property now owned or hereafter acquired by either BORROWER or any SUBSIDIARY that is subject to a purchase money LIEN or a capitalized lease permitted under this AGREEMENT if the contractual obligation (or other documentation) pursuant to which such LIEN is granted prohibits the creation of a LIEN thereon or requires the consent of any PERSON other than either BORROWER or its AFFILIATES which consent has not been obtained as a condition to the creation of any other LIEN on such property, except to the extent that such term in such contractual obligation or documentation provision is ineffective under Section 9-406, 9-407, 9-408, or 9-409 of the UCC or under any other applicable LAW.

Section 1.44. Extraordinary Receipts. The term "EXTRAORDINARY RECEIPTS" means any cash received by a BORROWER or any of its SUBSIDIARIES (net of (a) all reasonable out-of-pocket fees, costs, and other expenses incurred by such PERSON in connection with the collection or recovery of such amount, and (b) a reasonable reserve on account of taxes payable with respect to such EXTRAORDINARY RECEIPT) not in the ordinary course of business (and not consisting of proceeds of INDEBTEDNESS or payments under the TAX SHARING AGREEMENT), including: (i) pension plan reversions, (ii) proceeds of property insurance, which are not utilized by the BORROWER to repair or replace the asset damaged or destroyed that is the subject of such insurance proceeds, within nine (9) months after receipt of such award, (iii) judgments, proceeds of settlements or other consideration of any kind in connection with any cause of action, (iv) condemnation awards (and payments in lieu thereof) which are not utilized by the BORROWER for the replacement of the asset which was condemned within nine (9) months after receipt of such award, (v) indemnity payments (after deducting therefrom the amount of liability giving rise to such indemnity), and (vi ) any purchase price adjustment received in connection with any purchase agreement and any amounts received from escrow arrangements in connection with any purchase agreement; provided that, notwithstanding the foregoing, grants and proceeds from government economic development awards shall not constitute EXTRAORDINARY RECEIPTS.

Section 1.45. Facilities. The term "FACILITIES" means all real property and the improvements thereon used or occupied or leased by either BORROWER or otherwise used at any time

by either BORROWER in the operation of its business or for the manufacture, storage, or location of any of the COLLATERAL.

Section 1.46. Fiscal Year. The term "FISCAL YEAR" means the fiscal year of the BORROWERS which is the twelve (12) month accounting period commencing October 1st of each calendar year.

Section 1.47. Floors Loan. The term "FLOORS LOAN" means the revolving line of credit from the BORROWER to Floors-N-More, LLC, a Nevada limited liability company in the maximum principal amount of Three Million Dollars ($3,000,000.00), as such line of credit may be hereafter amended or modified.

Section 1.48. Foreign Subsidiary. The term "FOREIGN SUBSIDIARY" means any SUBSIDIARY that is not a DOMESTIC SUBSIDIARY.

Section 1.49. G.A.A.P. The term "G.A.A.P." means, with respect to any date of determination, generally accepted accounting principles as used by the Financial Accounting Standards Board and/or the American Institute of Certified Public Accountants consistently applied and maintained throughout the periods indicated.

Section 1.50. Governmental Authority. The term "GOVERNMENTAL AUTHORITY" means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

Section 1.51. Guaranteed Pension Plan. The term "GUARANTEED PENSION PLAN" means any pension plan maintained by either BORROWER or an ERISA AFFILIATE of either BORROWER, or to which either BORROWER or an ERISA AFFILIATE contributes, some or all of the benefits under which are guaranteed by the United States Pension Benefit Guaranty Corporation.

Section 1.52. Guarantor. The term "GUARANTOR" means ALJ HOLDINGS and any DOMESTIC SUBSIDIARY required to become a GUARANTOR hereunder.

Section 1.53. Guaranty Indebtedness. The term "GUARANTY INDEBTEDNESS" means any obligation, contingent or otherwise, of any referenced PERSON directly or indirectly guaranteeing any debt or obligation of any other PERSON and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such PERSON: (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such debt or obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, other than agreements to purchase goods at an arm's length price in the ordinary course of business); or (b) entered into for the purpose of assuring in any other manner the holder of such debt or obligation of the payment thereof or to protect such holder against loss in respect thereof (in whole or in part) The term GUARANTY INDEBTEDNESS shall not include endorsements for collection or deposit in the ordinary course of business.

Section 1.54. Indebtedness. The term "INDEBTEDNESS" means, as to any referenced PERSON (determined without duplication): (a) indebtedness of such PERSON for borrowed money (whether by loan or the issuance and sale of debt securities), or for the deferred purchase or acquisition price of property or services; (b) obligations of such PERSON in respect of letters of credit, banker's or other acceptances or similar instruments issued or accepted by financial institutions for the ACCOUNT of

such PERSON (whether or not such obligations are contingent); (c) CAPITAL LEASE OBLIGATIONS of such PERSON; (d) SYNTHETIC LEASE OBLIGATIONS; (e) all liabilities secured by any LIEN on any property owned by such PERSON, to the extent attached to such PERSON'S interest in such property, even though such PERSON has not assumed or become personally liable for the payment thereof; and (f) any obligations, liabilities or indebtedness, contingent or otherwise, under or in connection with any INTEREST RATE HEDGE AGREEMENTS; but excluding trade and other accounts payable in the ordinary course of business in accordance with customary trade terms and that are not overdue (as determined in accordance with customary trade practices) or that are being disputed in good faith by such PERSON and for which adequate reserves are being provided on the books of such PERSON in accordance with G.A.A.P.

Section 1.55. Insolvency Proceedings. The term "INSOLVENCY PROCEEDINGS" means, with respect to any referenced PERSON, any case or proceeding commenced by or against such PERSON, under any provision of the United States Bankruptcy Code, as amended, or under any other federal or state bankruptcy or insolvency law, or any assignments for the benefit of creditors, formal or informal moratoriums, receiverships, compositions or extensions with some or all creditors with respect to any indebtedness of such PERSON.

Section 1.56. Intellectual Property. The term "INTELLECTUAL PROPERTY" means, collectively, PATENTS, TRADEMARKS, COPYRIGHTS, INTELLECTUAL PROPERTY LICENSES and OTHER PROPRIETARY RIGHTS.

Section 1.57. Intellectual Property Licenses. The term "INTELLECTUAL PROPERTY LICENSES" means, collectively, with respect to each BORROWER, all license agreements, distribution agreements and covenants not to sue (regardless of whether such agreements and covenants are contained within an agreement that also covers other matters, such as development or consulting) with respect to any PATENT, TRADEMARK, COPYRIGHT or OTHER PROPRIETARY RIGHTS, regardless of whether such BORROWER is a licensor or licensee, distributor or distributee under any such agreement, together with any and all: (a) amendments, renewals, extensions, supplements and continuations thereof; (b) income, fees, royalties, damages, claims and payments now and hereafter due and/or payable thereunder and with respect thereto including damages and payments for past, present or future breaches or violations thereof; and (c) rights to sue for past, present and future breaches or violations thereof.

Section 1.58. Interest Rate Hedge Agreement. The term "INTEREST RATE HEDGE AGREEMENT" means any of the following, whether currently existing or arising in the future, between either BORROWER and the LENDER: (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement.

Section 1.59. Laws. The term "LAWS" means all ordinances, statutes, rules, regulations, orders, injunctions, writs or decrees of any government or political subdivision or agency thereof, or any court or similar entity established by any thereof.

Section 1.60. LC Obligations. The term "LC OBLIGATIONS" means, at any time, the sum of (a) the aggregate stated amount of all issued and outstanding LETTERS OF CREDIT, plus (b) the aggregate amount of all advances made under the LETTERS OF CREDIT for which the BORROWERS have not yet reimbursed the LENDER.

Section 1.61. Lender Expenses. The term "LENDER EXPENSES" means the documented, out-of-pocket expenses or costs incurred by the LENDER arising out of, pertaining to, or in any way connected with this AGREEMENT, any of the other LOAN DOCUMENTS or the OBLIGATIONS, or any documents executed in connection herewith or transactions hereunder. The term "LENDER EXPENSES" shall include, without limitation: (a) the costs or expenses required to be paid by the BORROWERS pursuant to this AGREEMENT or any other LOAN DOCUMENT; (b) taxes and insurance premiums advanced or otherwise paid by the LENDER in connection with the COLLATERAL or on behalf of a BORROWER; (c) filing, recording, audit fees, search fees, consulting fees and other expenses paid or incurred by the LENDER in connection with the LENDER'S transactions with the BORROWERS under the LOAN DOCUMENTS; (d) costs and expenses incurred by the LENDER in the collection of the ACCOUNTS (with or without the institution of legal action), or to enforce any provision of this AGREEMENT, or in gaining possession of, maintaining, handling, evaluating, preserving, storing, shipping, selling, preparing for sale and/or advertising to sell the COLLATERAL or any other property of either BORROWER whether or not a sale is consummated; (e) costs and expenses of litigation incurred by the LENDER in enforcing or defending this AGREEMENT or any portion hereof or in collecting any of the OBLIGATIONS; (f) reasonable attorneys' fees and expenses incurred by the LENDER in obtaining advice or the services of its attorneys with respect to the structuring, drafting, negotiating, reviewing, amending, terminating, enforcing or defending of this AGREEMENT, or any portion hereof or any agreement or matter related hereto, whether or not litigation is instituted; and (g) reasonable travel expenses of LENDER related to any of the foregoing.

Section 1.62. Letters Of Credit. The term "LETTERS OF CREDIT" means collectively letters of credit issued from time to time by the LENDER for the account or benefit of either BORROWER.

Section 1.63. Leverage Ratio. The term "LEVERAGE RATIO" means, as of the date of determination, the ratio of: (a) the COMPANIES' INDEBTEDNESS, to (b) the COMPANIES' EBITDA for the twelve-month period prior to the date of determination.

Section 1.64. Lien. The term "LIEN" means any lien, security interest, mortgage, deed of trust, charge or other encumbrance or security arrangement of any nature whatsoever, whether voluntary or involuntary.

Section 1.65. Loans. The term "LOANS" means, collectively, the REVOLVING LOAN and the TERM LOAN.

Section 1.66. Loan Documents. The term "LOAN DOCUMENTS" means all agreements, instruments and documents, including without limitation all loan agreements (including without limitation this AGREEMENT), notes (including without limitation the NOTES), guarantees, subordination agreements, intercreditor agreements, pledges, affidavits, powers of attorney, consents, assignments, landlord and mortgage waivers, opinions, collateral assignments, reimbursement agreements, contracts, notices, leases, financing statements, assignments of contract proceeds, intellectual property security agreements, pledges, letter of credit applications, INTEREST RATE HEDGE AGREEMENTS, and all other written matter, whether heretofore, now or hereafter executed by BORROWER, or by any SUBSIDIARY in connection with this AGREEMENT.

Section 1.67. Loan Parties. The term "LOAN PARTIES", collectively, the BORROWERS and any GUARANTOR.

Section 1.68. Lock Box. The term "LOCK BOX" has the meaning given that term in Section 3.5 of this AGREEMENT.

Section 1.69. Material Adverse Event. The term "MATERIAL ADVERSE EVENT" means the occurrence of any event, condition, or omission which the LENDER in the good faith reasonable exercise of the LENDER'S discretion determines could reasonably be expected to have a material adverse effect upon: (a) the condition (financial or otherwise), results of operations, properties, assets, liabilities (including, without limitation, tax liabilities, liabilities under ENVIRONMENTAL LAWS, and ERISA LIABILITIES), businesses, operations, capitalization, equity, licenses or franchises of the BORROWERS; (b) the ability of the BORROWERS to perform any of the OBLIGATIONS when and as required by the terms of the LOAN DOCUMENTS; (c) the rights and remedies of the LENDER as provided by the LOAN DOCUMENTS; or (d) the value, condition, use, or availability of any material portion of the COLLATERAL or upon any of the LENDER'S LIENS securing the OBLIGATIONS. Notwithstanding the foregoing, for the avoidance of doubt, the BOSTON SCIENTIFIC DISPOSITION shall not constitute a MATERIAL ADVERSE EVENT.

Section 1.70. Material Contract. The term "MATERIAL CONTRACT" means, with respect to any PERSON, (i) each contract or agreement to which such PERSON or any of its SUBSIDIARIES is a party involving aggregate consideration payable to or by such PERSON or such SUBSIDIARY of Two Million Dollars ($2,000,000) or more and (ii) all other contracts or agreements material to the business, operations, condition (financial or otherwise), performance, prospects or properties of such PERSON or such SUBSIDIARY.

Section 1.71. Maximum Loan Amount. The term "MAXIMUM LOAN AMOUNT" means the lesser of (a) the BORROWING BASE or (b) the DOLLAR CAP.

Section 1.72. Multiemployer Plan. The term "MULTIEMPLOYER PLAN" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA which is maintained for employees of either BORROWER, or any ERISA AFFILIATE of either BORROWER.

Section 1.73. Notes. The term "NOTES" means, collectively, the REVOLVING LOAN NOTE and the TERM LOAN NOTE.

Section 1.74. OFAC. The term "OFAC" means the Office of Foreign Asset Control of the United States Department of Treasury.

Section 1.75. Obligations. The term "OBLIGATIONS" means collectively all of the following obligations of the BORROWERS to pay to the LENDER: (a) sums due to the LENDER arising out of or in connection with the LOANS or otherwise pursuant to the terms of the LOAN DOCUMENTS; (b) indemnification obligations owed by either BORROWER to the LENDER in accordance with the terms of the LOAN DOCUMENTS; (c) LENDER EXPENSES; (d) overdrafts of either BORROWER upon any DEPOSIT ACCOUNT with the LENDER; (e) payments, duties or obligations owed to the LENDER arising from or with respect to INTEREST RATE HEDGE AGREEMENTS, foreign exchange facilities or currency transactions, existing or arising from time to time; (f) any sums owed to the LENDER arising out of or relating to any LETTERS OF CREDIT including, without limitation, all reimbursement and indemnification obligations, and obligations to pay fees; ; (g) all obligations and liabilities owed to the LENDER in connection with BANK PRODUCTS; and (h) any indebtedness or liability which may exist or arise as a result of any payment made with respect to any of the foregoing by or for the benefit of either BORROWER being avoided or set aside for any reason including, without limitation, any such payment

being avoided as a preference under Sections 547 and 550 of the United States Bankruptcy Code, as amended, or under any state law governing insolvency or creditors' rights.

Section 1.76. Other Proprietary Rights. The term ""OTHER PROPRIETARY RIGHTS" means, collectively, trade secrets and confidential information, data and databases, know-how and processes, designs, inventions, technology and software and any other intangible rights, to the extent not covered by the definitions of PATENTS, TRADEMARKS and COPYRIGHTS, whether statutory or common law, whether registered or unregistered, and whether established or registered in the United States or any other country or any political subdivision thereof, together with any and all: (a) registrations and applications for the foregoing; (b) income, fees, royalties, damages and payments now and hereafter due and/or payable thereunder and with respect thereto, including, without limitation, damages, claims and payments for past, present or future infringements or other violations thereof; (c) rights to sue for past, present and future infringements and other violations thereof; and (d) rights corresponding thereto throughout the world.

Section 1.77. Outstanding Amount. The term "OUTSTANDING AMOUNT" means, for any day, the outstanding principal balance of the REVOLVING LOAN plus the LC OBLIGATIONS.

Section 1.78. Overadvances. The term "OVERADVANCES" means the amount by which the OUTSTANDING AMOUNT exceeds the BORROWING BASE.

Section 1.79. Patents. The term "PATENTS" means, collectively, patents, patent applications, certificates of inventions, and industrial designs (whether established or registered or recorded in the United States or any other country or any political subdivision thereof), together with any and all: (a) inventions described and claimed therein; (b) reissues, divisions, continuations, extensions and continuations-in-part thereof; (c) income, fees, royalties, damages, claims and payments now or hereafter due and/or payable thereunder and with respect thereto including damages and payments for past, present or future infringements or other violations thereof; (d) rights to sue for past, present or future infringements or other violations thereof; and (e) rights corresponding thereto throughout the world.

Section 1.80. Permitted Indebtedness. The term "PERMITTED INDEBTEDNESS" means: (a) the OBLIGATIONS; (b) indebtedness secured by PERMITTED LIENS; (c) indebtedness of either BORROWER or any SUBSIDIARY owing to either BORROWER; (d) INDEBTEDNESS owing to the providers of insurance or their AFFILIATES incurred to finance deferred insurance premiums in the ordinary course of business; (e) INDEBTEDNESS in respect of advance payments by customers under purchase contracts in the ordinary course of business; (f) INDEBTEDNESS consisting of guaranty obligations in respect of loans and advances to employees, officers or directors of either BORROWER or any SUBSIDIARY in the ordinary course of business (including for travel, entertainment and relocation expenses) provided that the aggregate amount of such INDEBTEDNESS does not exceed One Hundred Thousand Dollars ($100,000.00); (g) INDEBTEDNESS listed in Schedule 1.80 attached hereto; and (h) INDEBTEDNESS owed to the LENDER.

Section 1.81. Permitted Liens. The term "PERMITTED LIENS" means: (a) LIENS for taxes, assessments, or similar charges incurred in the ordinary course of business that are not yet due and payable; (b) LIENS in favor of the LENDER; (c) any existing LIENS specifically described on Schedule 1.81 hereof; (d) any LIEN on specifically allocated money or securities to secure payments under workmen's compensation, unemployment insurance, social security and other similar LAWS, or to secure the performance of bids, tenders or contracts (other than for the repayment of borrowed money) or to secure statutory obligations or appeal bonds, or to secure indemnity, performance or other similar bonds in the ordinary course of business; (e) purchase money security interests for EQUIPMENT securing INDEBTEDNESS or LIENS securing capitalized lease obligations, provided that such purchase money security interests or other LIENS do not attach to any to any assets other than the specific item(s) of

EQUIPMENT acquired with the proceeds of the loan secured by such purchase money security interests or CAPITAL LEASE OBLIGATIONS and that the aggregate amount of INDEBTEDNESS incurred in any FISCAL YEAR secured by any such purchase money security interests and CAPITAL LEASE OBLIGATIONS does not exceed Three Million Dollars ($3,000,000.00) at any one time outstanding; (f) LIENS of carriers, warehousemen, suppliers, or other PERSONS that are possessory in nature arising in the ordinary course of business so long as such LIENS attach only to INVENTORY and which are not delinquent by more than forty-five (45) days or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto and for which the BORROWERS have established appropriate reserves; (g) banker's LIENS, rights of setoff and LIENS in favor of financial institutions incurred in the ordinary course of business arising in connection with either BORROWER'S or any SUBSIDIARY'S deposit accounts or securities accounts held at such institutions solely to secure payment of fees and similar costs and expenses; (h) LIENS arising from judgments, decrees or attachments in circumstances not constituting an EVENT OF DEFAULT; (i) the subsequently arising LIENS which are expressly approved in advance of the creation of any such LIENS by the LENDER in writing; and (j) non-consensual LIENS securing indebtedness in an aggregate amount not to exceed One Hundred Fifty Thousand Dollars ($150,000.00).

Section 1.82. Permitted Overmargin. The term "PERMITTED OVERMARGIN" means an amount equal to the lesser of: (a) the amount of Nineteen Million Dollars ($19,000,000.00), provided, that such amount shall be reduced as of the last day of each fiscal quarter of the BORROWER, commencing the fiscal quarter ending December 31, 2014, by an amount equal to One Million Five Hundred Eighty-Three Thousand Three Hundred Thirty-Four Dollars ($1,583,334.00) per quarter; and (b) the sum of (i) the principal balance outstanding under the TERM LOAN, plus (ii) the principal balance outstanding under the ALJ LOAN, plus (iii) the commitment dollar cap on the FLOORS LOAN.

Section 1.83. Person. The term "PERSON" means any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, estate, unincorporated organization, joint venture, court, government or political subdivision or agency thereof, or other legal entity.

Section 1.84. Prohibited Person. The term "PROHIBITED PERSON" means any PERSON (a) that is listed in the annex to, or is otherwise subject to the provisions of, the ANTI-TERRORISM ORDER; (b) that is owned or controlled by, or acting for or on behalf of, any person or entity that is listed in the annex to, or is otherwise subject to the provisions of the ANTI-TERRORISM ORDER; (c) that commits, threatens or conspires to commit or supports "terrorism" as defined in the ANTI-TERRORISM ORDER; (d) that is named as a "specifically designated national (SDN)" on the most current list published by OFAC at its official website, http://www.treas.gov.ofac/t11sdn.pdf or at any replacement website or other replacement official publication of such list; (e) that is covered by International Emergency Economic Powers Act or OFAC; or (f) that is an affiliate (including any principal, officer, immediate family member or close associate) of a PERSON described in one or more of clauses (a) – (e) of this definition.

Section 1.85. PTO. The term "PTO" means the United States Patent and Trademark Office and any substitute or successor agency.

Section 1.86. Receivables. The term "RECEIVABLES" means all of the ACCOUNTS, INSTRUMENTS, DOCUMENTS, GENERAL INTANGIBLES, CHATTEL PAPER, notes, notes receivable, drafts, acceptances, and chooses in action, of either BORROWER, now existing or hereafter created or acquired, and all proceeds and products thereof, and all rights thereto, arising from the sale or lease of or the providing of INVENTORY, GOODS, or services by either BORROWER to ACCOUNT DEBTORS, as well as all other rights, contingent or non-contingent, of any kind of either BORROWER to receive payment, benefit, or credit from any PERSON.

Section 1.87. Records. The term "RECORDS" means correspondence, memoranda, tapes, discs, papers, books and other documents, or transcribed information of any type, whether expressed in ordinary, computer or machine language.

Section 1.88. Regulated Substance. The term "REGULATED SUBSTANCE" means any substance which, pursuant to any ENVIRONMENTAL LAW, is identified as a hazardous substance (or other term having similar import) or is otherwise subject to special requirements in connection with the use, storage, transportation, disposition or other handling thereof.

Section 1.89. Release. The term "RELEASE" means a "release" as defined in Section 101(22) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as now or hereafter amended.

Section 1.90. Responsible Officer. The term "RESPONSIBLE OFFICER" means each of the BORROWER'S President/Chief Executive Officer and Chief Financial Officer.

Section 1.91. Revolving Loan. The term "REVOLVING LOAN" means the revolving credit facility extended by the LENDER to the BORROWERS in accordance with the terms set forth in this AGREEMENT.

Section 1.92. Revolving Loan Note. The term "REVOLVING LOAN NOTE" means the Amended And Restated Revolving Promissory Note of even date herewith from the BORROWERS as maker thereof which is payable to the order of the LENDER in the stated principal amount of Five Million Dollars ($5,000,000.00).

Section 1.93. Restricted Payment. The term "RESTRICTED PAYMENT" means collectively: (a) any dividend or other payment or distribution, direct or indirect, on ACCOUNT of any equity interest in a BORROWER now or hereafter outstanding, except a dividend or distribution payable solely in the same class or type of equity interest to the holders of that class or type; (b) any redemption, conversion, exchange, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, by a BORROWER of any equity interest in the BORROWER now or hereafter outstanding; (c) any payment made by either BORROWER to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire equity interests in either BORROWER now or hereafter outstanding; or (d) any payment by either BORROWER of any management, consulting or similar fees which are not in amounts comparable to sums paid in the marketplace for similar services to unrelated employees for services actually performed.

Section 1.94. Sanctioned Country. The term "SANCTIONED COUNTRY" means a country subject to the sanctions program identified on the list maintained by OFAC and available at http://www.treas.gov/offices/eotffc/ofac/sanctions/index.html or as otherwise published from time to time.

Section 1.95. Sanctioned Person. The term "SANCTIONED PERSON" means (a) a PERSON named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at http://www.treas.gov/offices/eotffc/ofac/sdn/index.html or as otherwise published from time to time, or (b) (i) an agency of the government of a SANCTIONED COUNTRY, (ii) an organization controlled by a SANCTIONED COUNTRY, or (iii) a PERSON resident in a SANCTIONED COUNTRY, to the extent subject to a sanctions program administered by OFAC.

Section 1.96. Separation Agreement. The term "SEPARATION AGREEMENT" means the Separation Agreement dated October 18, 2013 between Faneuil, Inc., the SUBORDINATE CREDITOR,

and Scantron Corporation.

Section 1.97. Solvent. The term "SOLVENT" means, as to any referenced PERSON, that as of the date of determination both: (a) (i) the then fair saleable value of the property of such PERSON is greater than the total amount of liabilities (including contingent liabilities) of such PERSON and is not less than the amount that will be required to pay the probable liabilities on such PERSON'S then existing debts as they become absolute and matured considering all financing alternatives and potential asset sales reasonably available to such PERSON; (ii) such PERSON'S capital is not unreasonably small in relation to its business or any contemplated or undertaken transaction; and (iii) such PERSON does not intend to incur, or believe (nor should it reasonably believe) that it will incur, debts beyond its ability to pay such debts as they become due; and (b) such PERSON is "solvent" within the meaning given that term and similar terms under applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

Section 1.98. Subordinate Creditor. The term "SUBORDINATE CREDITOR" means Harland Clarke Holdings Corp., a Delaware corporation.

Section 1.99. Subordinated Debt. The term "SUBORDINATED DEBT" means the BORROWER'S INDEBTEDNESS to the SUBORDINATE CREDITOR in the original principal amount of Twenty-Five Million Dollars ($25,000,000.00).

Section 1.100. Subsidiary. The term "SUBSIDIARY" means, with respect to any PERSON, any other PERSON of which securities or other ownership interests representing an aggregate of fifty percent (50%) or more of the equity or the ordinary voting power are, at the time as of which any determination is being made, owned or controlled directly, or indirectly through one or more intermediaries, by such PERSON.

Section 1.101. Synthetic Lease Obligation. The term "SYNTHETIC LEASE OBLIGATION" means the monetary obligation of a PERSON under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such PERSON but which, upon the insolvency or bankruptcy of such PERSON, would be characterized as the indebtedness of such PERSON.

Section 1.102. Tangible Net Worth. The term "TANGIBLE NET WORTH" means: (a) the total net worth of Faneuil, Inc., as determined by GAAP, minus (b) all intangible assets of Faneuil, Inc. (including, but not limited to, all goodwill, all INTELLECTUAL PROPERTY, due from officers, employees or shareholders, and notes and receivables due from AFFILIATES, shareholders, officers or employees, all determined in accordance with GAAP.

Section 1.103. Tax Sharing Agreement. The term "TAX SHARING AGREEMENT" means that certain Tax Sharing Agreement dated October 18, 2013 between the BORROWER and ALJ HOLDINGS.

Section 1.104. Term Loan. The term "TERM LOAN" means the term loan facility extended by the LENDER to the BORROWERS in accordance with the terms set forth in this AGREEMENT.

Section 1.105. Term Loan Note. The term "TERM LOAN NOTE" means the Promissory Note of even date herewith from the BORROWERS as maker thereof which is payable to the order of the LENDER in the stated principal amount of Nineteen Million Dollars ($19,000,000.00).

Section 1.106. Termination Event. The term "TERMINATION EVENT" means: (a) a "Reportable Event" described in Section 4043 of ERISA and the regulations issued thereunder, but not including any such event for which the 30-day notice requirement has been waived by applicable regulation; (b) the withdrawal of either BORROWER or an ERISA AFFILIATE of either BORROWER from a GUARANTEED PENSION PLAN during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; (c) the filing of a notice of intent to terminate a GUARANTEED PENSION PLAN or the treatment of a GUARANTEED PENSION PLAN amendment as a termination under Section 4041 of ERISA; (d) the institution of proceedings to terminate a GUARANTEED PENSION PLAN by the Pension Benefit Guaranty Corporation; (e) the withdrawal or partial withdrawal of either BORROWER or an ERISA AFFILIATE of either BORROWER from a MULTIEMPLOYER PLAN; or (f) any other event or condition which might reasonably be expected to constitute grounds under ERISA for the termination of, or the appointment of a trustee to administer, any GUARANTEED PENSION PLAN.

Section 1.107. Trademarks. The term "TRADEMARKS" means, collectively, all trademarks, service marks, certification marks, trade names, slogans, logos, trade dress, domain names , and other similar source identifiers, whether statutory or common law, whether registered or unregistered, and whether established or registered in the United States or any other country or any political subdivision thereof, together with any and all: (a) registrations and applications for any of the foregoing; (b) goodwill connected with the use thereof and symbolized thereby; (c) rights and privileges arising under applicable law with respect to the use of any of the foregoing; (d) reissues, continuations, extensions and renewals thereof; (e) income, fees, royalties, damages and payments now and hereafter due and/or payable thereunder and with respect thereto, including damages, claims and payments for past, present or future infringements, dilutions or other violations thereof; (f) rights to sue for past, present and future infringements, dilutions or other violations thereof; and (g) rights corresponding thereto throughout the world.

Section 1.108. Trademark Security Agreement. The term "TRADEMARK SECURITY AGREEMENT" means the Trademark Security Agreement dated as of the date hereof, made by and between the BORROWER and the LENDER.

Section 1.109. Transaction Documents. The term "TRANSACTION DOCUMENTS" means, collectively, the Stock Purchase Agreement dated October 18, 2013 between ALJ HOLDINGS, the SUBORDINATE CREDITOR, and the individual purchasers named therein, the SEPARATION AGREEMENT and the VOTING AND INVESTOR RIGHTS AGREEMENT.

Section 1.110. UCC. The term "UCC" means the Uniform Commercial Code, as adopted and amended in the Commonwealth of Virginia.

Section 1.111. Unfunded Capital Expenditures. The term "UNFUNDED CAPITAL EXPENDITURES" means for any applicable period, capital expenditures made by any of the COMPANIES during such period, excluding: (a) any capital expenditures paid from proceeds of INDEBTEDNESS (other than proceeds of INDEBTEDNESS arising from borrowings under any working capital line of credit or similar short term financing, such as the LOAN); and (b) capital expenditures for which the COMPANIES are reimbursed by a COMPANY'S customer within ninety (90) days after the applicable expenditure.

Section 1.112. Voting And Investor Rights Agreement. The term "VOTING AND INVESTOR RIGHTS AGREEMENT" means the Voting and Investor Rights Agreement, dated as of October 18, 2013, by and among Harland Clarke Holdings Corp., ALJ HOLDINGS, BORROWER, each of the other "Purchasers" (as defined therein) party thereto and Jess M. Ravich.

ARTICLE 2.
TERMS OF THE LOAN

Section 2.1. Conditions Precedent. As a condition to CLOSING, LENDER shall have received, or concluded, the following in form and substance to LENDER:

Section 2.1.1. Loan Documents. The following LOAN DOCUMENTS shall be fully executed and delivered: this AGREEMENT, the TRADEMARK SECURITY AGREEMENT, and the NOTE.

Section 2.1.2. Insurance. Insurance certificates showing coverage limits acceptable to the LENDER.

Section 2.1.3. No Adverse Change. There shall exist no material adverse change in the business, assets, liabilities, operations, financial conditions or executive management of the BORROWERS since June 30, 2014.

Section 2.1.4. Representations And Warranties. Each of the representations and warranties set forth in this AGREEMENT shall be true, accurate, and complete in all material respects.

Section 2.1.5. Liens. Satisfactory evidence that the LENDER'S LIENS securing the OBLIGATIONS will be first priority LIENS subject only to PERMITTED LIENS.

Section 2.2. Agreement To Extend The Revolving Loan. Subject to the terms and conditions stated herein, the LENDER agrees to extend the REVOLVING LOAN to the BORROWERS. The LENDER shall advance proceeds of the REVOLVING LOAN to the BORROWERS by depositing into the COMMERCIAL ACCOUNT or in accordance with such other procedures as may be agreed to between the LENDER and the BORROWERS, such sums as the BORROWERS may request, provided that the OUTSTANDING AMOUNT shall never exceed at any time the MAXIMUM LOAN AMOUNT. The BORROWERS shall not request or permit any advance of proceeds of the REVOLVING LOAN which would cause the OUTSTANDING AMOUNT to exceed the MAXIMUM LOAN AMOUNT. In the event that the OUTSTANDING AMOUNT ever exceeds the MAXIMUM LOAN AMOUNT, the BORROWERS shall immediately, upon the demand of the LENDER, reduce the OUTSTANDING AMOUNT of the REVOLVING LOAN to an amount which is not in excess of the MAXIMUM LOAN AMOUNT. Any termination of the REVOLVING LOAN by the LENDER in accordance with the terms hereof shall relieve the LENDER of the LENDER'S obligation to lend money or to make financial accommodations to or for the BORROWERS, and shall in no way release, terminate, discharge or excuse the BORROWERS from its absolute duty to pay or perform the OBLIGATIONS. Any provision of this AGREEMENT to the contrary notwithstanding, at the request of the BORROWER, the LENDER may in its sole discretion (but shall have absolutely no obligation to make advances under the REVOLVING LOAN to the BORROWER in amounts that result in an OVERADVANCE; provided, that (a) no such event or occurrence shall cause or constitute a waiver of the LENDER'S right to refuse to make any further OVERADVANCE, or issue any LETTERS OF CREDIT, at any time that an OVERADVANCE exists, and (b) no advances resulting in an OVERADVANCE shall be made when there is an EVENT OF DEFAULT.

Section 2.2.1. Conditions Precedent To Each Advance. The obligation of the LENDER to make any advances under the REVOLVING LOAN, or issue any LETTER OF CREDIT, shall be subject to each of the following conditions precedent:

2.2.1.1. No Defaults Or Events Of Default. No event shall have occurred on or prior to such date and be continuing on such date, and no condition shall exist on such date, which constitutes a

DEFAULT or EVENT OF DEFAULT.

2.2.1.2. Continuing Accuracy Of Representations And Warranties. Each of the representations and warranties made by or on behalf of a BORROWER to the LENDER in the LOAN DOCUMENTS shall be true and correct in all material respects when made and shall be deemed to be repeated as true, accurate and complete in all material respects as of the date of the BORROWERS' request for each advance.

2.2.1.3. Receipt Of Reports. The LENDER shall be in receipt of all reports, financial statements, financial information and financial disclosures required by the LOAN DOCUMENTS, except to the extent that the LENDER has waived the receipt thereof.

2.2.1.4. No Illegalities. It shall not be unlawful for the LENDER to perform any of the agreements or obligations imposed upon the LENDER by any of the LOAN DOCUMENTS or for either BORROWER to perform any of their respective agreements or obligations as provided by the LOAN DOCUMENTS.

2.2.1.5. No Material Adverse Event. No MATERIAL ADVERSE EVENT shall have occurred and be then continuing.

2.2.1.6. Insurance Endorsements. The LENDER shall have received insurance endorsements in accordance with Section 5.2 reasonably satisfactory to LENDER.

Section 2.2.2. Interest And Lender's Records. All sums advanced under the REVOLVING LOAN shall be evidenced by, and shall be repaid with interest in accordance with, the provisions of the REVOLVING LOAN NOTE, the terms and conditions of which are incorporated herein by reference. The date and amounts of each advance made by the LENDER and each payment made by the BORROWERS shall be recorded by the LENDER on the books and records of the LENDER, but any failure to record such dates or amounts shall not relieve the BORROWERS of its duties and obligations under the LOAN DOCUMENTS. Interest accrued upon the REVOLVING LOAN shall be computed on outstanding balances as reflected on the LENDER'S books and records.

Section 2.2.3. Unused Fee. For each calendar quarter or portion thereof during which the REVOLVING LOAN is in existence and has not been terminated, until the termination of the REVOLVING LOAN, the BORROWERS shall pay to the LENDER an unused fee of one-quarter percent (.25%) per annum on that sum obtained by subtracting the average daily OUTSTANDING AMOUNT during such calendar quarter or portion thereof from the DOLLAR CAP. The unused fee shall be payable quarter in arrears, on the first day of each succeeding January, April, July and October or on the last day of a portion of a quarter commencing with the first of such payments to be made on October 1, 2014. The unused fee is not to be considered a fee being paid by the BORROWERS to the LENDER as an inducement to the LENDER to make advances, nor shall it be considered to modify or limit the ability of the LENDER to terminate in accordance with the provisions of this AGREEMENT the ability of the BORROWERS to borrow under the REVOLVING LOAN, but is instead intended as part of the compensation which is earned by the LENDER for agreeing to provide the REVOLVING LOAN in accordance with the terms of the LOAN DOCUMENTS.

Section 2.2.4. Monitoring Fee. The BORROWERS shall pay to the LENDER on the first day of each month, a monitoring fee in the amount of Two Hundred Fifty Dollars ($250.00).

Section 2.2.5. Term. All sums outstanding under the REVOLVING LOAN shall be paid in full on the date occurring two (2) years after the date of this AGREEMENT unless such date is extended by written notice from the LENDER to the BORROWERS.

Section 2.2.6. Purpose. The proceeds of the REVOLVING LOAN shall be used by the BORROWERS solely for funding the general working capital needs of the BORROWERS.

Section 2.3. Letters Of Credit.

Section 2.3.1. Issuance Of Letters Of Credit. The LENDER may in its discretion issue LETTERS OF CREDIT as requested by either BORROWER, provided that no DEFAULT or EVENT OF DEFAULT has occurred and is continuing and provided that: (a) the OUTSTANDING AMOUNT does not exceed the MAXIMUM LOAN AMOUNT; and (b) the aggregate amount of LC OBLIGATIONS does not exceed Five Million Dollars ($5,000,000.00). No LETTER OF CREDIT shall have an expiry date more than twelve (12) months after the date of issuance. Any amounts paid by the LENDER in connection with any LETTER OF CREDIT shall be treated as an advance of proceeds of the REVOLVING LOAN, shall be secured by all of the COLLATERAL, and shall bear interest (including the default rate of interest) and be payable at the same rate and in the same manner as the REVOLVING LOAN.

Section 2.3.2. Rights And Remedies Of The Lender. If any LETTER OF CREDIT is drawn upon to discharge any obligation of either BORROWER to the beneficiary of such LETTER OF CREDIT, in whole or in part, the LENDER shall be fully subrogated to the rights of such beneficiary with respect to the obligations owed by the applicable BORROWER to such beneficiary discharged with the proceeds of the LETTER OF CREDIT.

Section 2.3.3. Indemnification. The BORROWERS unconditionally and irrevocably agree to indemnify the LENDER and to hold the LENDER harmless from any and all losses, claims or liabilities arising from any transactions or occurrences relating to LETTERS OF CREDIT issued, established, opened or accepted for the account of the BORROWERS, and any drafts or acceptances thereunder, and all obligations incurred in connection therewith, other than losses, claims or liabilities arising from the gross negligence or wanton misconduct of the LENDER.

Section 2.3.4. Reimbursement Obligations. The BORROWERS agrees to reimburse the LENDER on the day of drawing (or upon such later date as the BORROWERS receive notice of the payment of the presented draft by the LENDER) upon any LETTER OF CREDIT (either with the proceeds of the REVOLVING LOAN obtained hereunder or otherwise) in same day funds in the amount of the drawing. If the BORROWERS fail to reimburse the LENDER as provided herein or as provided in any separate letter of credit application agreements or other LOAN DOCUMENTS, the unreimbursed amount of such drawing shall bear interest at a per annum rate equal to the highest interest rate (including the default rate of interest) applicable to the REVOLVING LOAN. The BORROWERS' reimbursement obligations hereunder shall be absolute and unconditional under all circumstances irrespective of any rights of set-off, counterclaim or defense to payment the BORROWERS may claim or have against the LENDER, the beneficiary of the LETTER OF CREDIT or any other PERSON, including, without limitation, any defense based on any failure of the BORROWERS to receive consideration or the legality, validity, regularity or unenforceability of the LETTER OF CREDIT or any irregularities in the presentment of the draft presented upon the LETTER OF CREDIT.

Section 2.3.5. Fees, Charges And Other Terms. The BORROWERS shall pay to the LENDER: (a) with the issuance of each LETTER OF CREDIT an issuance fee of Two Hundred Twenty-Five Dollars ($225.00); (b) with the issuance of each LETTER OF CREDIT a fee in an amount equal to two and one-half percent (2.5%) per annum of the face amount of the LETTER OF CREDIT; and (c) upon any amendment of any LETTER OF CREDIT, the LENDER'S then standard fee for such amendment. The BORROWERS shall also execute such applications, reimbursement agreements, or other documents as the LENDER requires from time to time with respect to the issuance, extension,

amendment, or any other requested or required action concerning a LETTER OF CREDIT.

Section 2.4. The Term Loan. Subject to the terms and conditions stated herein, the LENDER agrees to advance on the date of CLOSING to the BORROWERS as proceeds of the TERM LOAN the principal sum of Nineteen Million Dollars ($19,000,000.00).

Section 2.4.1. Interest and Repayment. All principal sums advanced and outstanding under the TERM LOAN shall bear interest at the rate or rates set forth in the TERM LOAN NOTE. The TERM LOAN NOTE shall be repaid in accordance with the stated terms and conditions of the TERM LOAN NOTE, which terms and conditions are incorporated herein by reference.

Section 2.4.2. Purpose. The proceeds of the TERM LOAN shall be used by the BORROWERS solely for the purpose of repaying all sums outstanding under the SUBORDINATED DEBT.

Section 2.4.3. Fee. The BORROWER shall pay to the LENDER on the date of this AGREEMENT an underwriting fee in the amount of One Hundred Thousand Dollars ($100,000.00), which fee upon payment, will be the property of the LENDER.

Section 2.5. Mandatory Prepayments. The BORROWER shall have the obligation to pay, or cause to be paid, to the LENDER the following mandatory prepayments: (a) the BORROWERS shall pay, or cause to be paid, to the LENDER all EXTRAORDINARY RECEIPTS in excess of Two Hundred Thousand Dollars ($200,000.00) within one (1) BUSINESS DAY after the receipt thereof by the BORROWER; and (b) upon the BORROWERS' delivery of the annual financial statements required to be delivered pursuant to Section 5.12.4 hereof and the Certificate of No Default required to be delivered pursuant to Section 5.12.6 hereof, but in any event not later than ninety (90) calendar days after the end of each FISCAL YEAR of the BORROWERS, commencing with the FISCAL YEAR ending September 30, 2015, the BORROWERS shall pay to the LENDER an amount equal to fifty percent (50%) of the EXCESS CASH FLOW of the BORROWERS for the FISCAL YEAR preceding the date of payment. All mandatory prepayments made hereunder shall first be applied to the TERM LOAN, in the inverse order of scheduled maturities, and upon the repayment in full of the TERM LOAN shall be applied to the REVOLVING LOAN (without a reduction in the DOLLAR CAP).

Section 2.6. Capital Adequacy. If the LENDER determines at any time that the adoption or implementation of any CAPITAL ADEQUACY REQUIREMENT, or the compliance therewith by the LENDER or any corporation or other PERSON controlling the LENDER, affects the amount of capital to be maintained by the LENDER or any PERSON controlling the LENDER as a result of its obligations hereunder, or reduces the effective rate of return on the LENDER'S or such controlling PERSON'S capital to a level below that which the LENDER or such controlling PERSON would have achieved but for such CAPITAL ADEQUACY REQUIREMENT as a consequence of its obligations hereunder (taking into consideration the LENDER'S or such controlling PERSON'S policies with respect to capital adequacy), then after submission by the LENDER to the BORROWERS of a written request therefore and a statement of the basis for such determination, the BORROWERS shall pay to the LENDER such additional amounts as will compensate the LENDER or the controlling PERSON for the cost of maintaining the increased capital or for the reduction in the rate of return on capital, together with interest thereon at the highest rate of interest then in effect under the NOTES from the date the LENDER requests such additional amounts until those amounts are paid in full.

Section 2.7. Payments. All payments received by the LENDER which are to be applied to reduce the OBLIGATIONS shall be credited to the balances due from the BORROWERS pursuant to the normal and customary practices of the LENDER. If any payment is avoided or set aside under any provision of the United States Bankruptcy Code, including Sections 547 and 550, or any state law

governing insolvency or creditors' rights, the payment shall be considered not to have been made for all purposes of this AGREEMENT and the LENDER shall adjust its records to reflect the fact that the avoided payment was not made and has not been credited against the OBLIGATIONS.

Section 2.8. Advancements. If the BORROWERS fail to perform any of its agreements or covenants contained in this AGREEMENT or if the BORROWERS fail to protect or preserve the COLLATERAL or the status and priority of the security interest of the LENDER in the COLLATERAL, the LENDER may make advances to perform the same on behalf of the BORROWERS to protect or preserve the COLLATERAL or the status and priority of the security interest of the LENDER in the COLLATERAL, and all sums so advanced shall immediately upon advance become secured by the security interests granted in this AGREEMENT, and shall become part of the principal amount owed to the LENDER with interest to be assessed at the applicable rate thereon and subject to the terms and provisions of this AGREEMENT and all of the LOAN DOCUMENTS. The BORROWERS shall repay on demand all sums so advanced on either BORROWER'S behalf, plus all expenses or costs incurred by the LENDER, including reasonable legal fees, with interest thereon at the highest rate authorized in the NOTES. The provisions of this Section shall not be construed to prevent the institution of the rights and remedies of the LENDER upon the occurrence and during the continuance of an EVENT OF DEFAULT. The authorization contained in this Section is not intended to impose any duty or obligation on the LENDER to perform any action or make any advancement on behalf of the BORROWERS and is intended to be for the sole benefit and protection of the LENDER.

Section 2.9. Payment Absolute. All payments of the OBLIGATIONS, including, without limitation, principal, interest, prepayments and fees, shall be paid by the BORROWERS without setoff, recoupment or counterclaim to the LENDER at the LENDER'S office specified in the NOTES in United States Dollars and in immediately available funds not later than 12:00 noon on the due date of such payment. All payments received by the LENDER after 12:00 p.m. shall, at the option of the LENDER, be deemed received on the next succeeding BUSINESS DAY and any applicable interest or fee shall continue to accrue.

Section 2.9.1. Alternatively, at its sole discretion, the LENDER may, with prior written notice to the BORROWERS, charge any deposit account of either BORROWER at the LENDER with all or any part of any amount due hereunder to the extent that the BORROWERS has not otherwise tendered payment to the LENDER. All payments shall be applied to the OBLIGATIONS in such order as the LENDER may elect.

Section 2.9.2. The BORROWERS also hereby authorizes the LENDER to make advances under the REVOLVING LOAN to make payment of all principal, interest and fees to be made hereunder and under the other LOAN DOCUMENTS. The LENDER may, but shall not be obligated to, discharge the BORROWERS' payment obligations hereunder by so making advances under the REVOLVING LOAN.

Section 2.9.3. If any payment to be made by the BORROWERS shall come due on a day other than a BUSINESS DAY, payment shall be made on the next following BUSINESS DAY, and such extension of time shall be reflected in computing interest or fees, as the case may be.

Section 2.9.4. A notice from the LENDER to the BORROWERS with respect to any amount owing under this Section shall be conclusive, absent manifest error.

Section 2.10. Equitable Contribution. In order to provide for just and equitable contribution among the BORROWERS, if any payment is made by a BORROWER (a "FUNDING BORROWER") in discharge of any of the OBLIGATIONS of another BORROWER, that FUNDING BORROWER shall be entitled to a contribution from such other BORROWER for all payments, damages, and expenses incurred

by that FUNDING BORROWER in discharging the OBLIGATIONS, in a manner and to the extent required to allocate liabilities in an equitable manner among the BORROWERS by the relative benefits received by the BORROWERS. The parties hereto acknowledge that the right of contribution hereunder shall constitute an asset of the party to which such contribution is owing; provided such right of contribution shall be subordinate and subject to the prior payment in full of the OBLIGATIONS. Each of the BORROWERS hereby agrees that it will not enforce any of its rights of contributions or subrogation against the other BORROWERS with respect to any liability incurred hereunder or any of the other LOAN DOCUMENTS until such time as all of the OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) have been paid in full in cash and the LOANS have been terminated.

Section 2.11. Joint And Several Liability; Appointment Of Agent. Notwithstanding anything to the contrary contained herein, the BORROWERS shall be jointly and severally liable to the LENDER for all OBLIGATIONS, regardless of whether such OBLIGATIONS arise as a result of credit extensions to one BORROWER, it being stipulated and agreed that the LOANS, the LETTERS OF CREDIT, and all of the credit extensions hereunder to one BORROWER inure to the benefit of all BORROWERS, and that the LENDER is relying on the joint and several liability of the BORROWERS in extending the LOANS and in issuing any of the LETTERS OF CREDIT and in providing credit hereunder. To facilitate the administration of the LOANS, the BORROWERS hereby irrevocably appoint Faneuil, Inc. as their true and lawful agent and attorney-in-fact with full power and authority to execute, deliver and acknowledge, as appropriate, all LOAN DOCUMENTS or certificates from time to time deemed necessary or appropriate by the LENDER in connection with the LOANS, any LETTERS OF CREDIT, or the issuance or administration of any of the other OBLIGATIONS. This power-of-attorney is coupled with an interest and cannot be revoked, modified or amended without the prior written consent of the LENDER.

## ARTICLE 3.
## SECURITY FOR THE OBLIGATIONS

The payment, performance and satisfaction of the OBLIGATIONS shall be secured by the following assurances of payment and security.

Section 3.1. Grant Of Security Interest. In order to secure the repayment and performance of all OBLIGATIONS, both currently existing and arising in the future, the BORROWERS grant to the LENDER an immediate and continuing security interest in and to the COLLATERAL. The BORROWERS further pledge, hypothecate and grant to the LENDER a continuing security interest in and to, all amounts that may be owing at any time and from time to time by the LENDER to either BORROWER in any capacity, including but not limited to any balance or share belonging to the BORROWERS of any deposit or other account with the LENDER, which security interest shall be independent of and in addition to any right of set-off to which the LENDER may be entitled.

Section 3.2. Proceeds And Products. The LENDER'S security interests provided for herein shall apply to the proceeds, including but not limited to insurance proceeds, and the products of the COLLATERAL.

Section 3.3. Priority Of Security Interests. Each of the security interests, pledges, and LIENS granted by the BORROWERS to the LENDER pursuant to any of the LOAN DOCUMENTS shall be the only security interests, pledges, and LIENS in the COLLATERAL other than the PERMITTED LIENS, and such security interests, pledges and LIENS in the COLLATERAL of the LENDER: (a) in which a security interest may be perfected by filing a financing statement under the UCC, subject to the filing of any such financing statement; and (b) constituting INSTRUMENTS, CHATTEL PAPER, and certificated INVESTMENT PROPERTY, subject to the deliveries contemplated under this AGREEMENT, in each case, shall be perfected first priority security interests, pledges, and LIENS, subject only to the

PERMITTED LIENS.

Section 3.4. Future Advances. The security interests, liens, and pledges granted by the BORROWERS to the LENDER pursuant to the LOAN DOCUMENTS shall secure all current and all future advances made by the LENDER to the BORROWERS under this AGREEMENT, or for the account or benefit of the BORROWERS, and the LENDER may advance or readvance upon repayment by the BORROWERS all or any portion of the sums loaned to the BORROWERS under this AGREEMENT and any such advance or readvance shall be fully secured by the security interests, liens, and pledges created by the LOAN DOCUMENTS.

Section 3.5. Receivable Collections. The BORROWERS shall deposit into the COMMERCIAL ACCOUNT, immediately upon receipt thereof, all cash, checks, drafts, and other instruments for the payment of money, properly endorsed, which have been received by a BORROWER in full or partial payment of any RECEIVABLE; provided, the BORROWERS shall, if requested in writing by the LENDER upon the occurrence and during the continuance of an EVENT OF DEFAULT, deposit or cause to be deposited into the COLLATERAL ACCOUNT all of such items of payment immediately upon receipt thereof. Upon the written request of the LENDER at any time upon the occurrence and during the continuance of an EVENT OF DEFAULT, the BORROWERS shall instruct all of its ACCOUNT DEBTORS to make all payments on the BORROWER'S RECEIVABLES to a post office box in which the LENDER alone shall have sole access ("LOCK BOX"). If payment of the BORROWERS' RECEIVABLES is paid into the LOCK BOX the LENDER shall, on each BUSINESS DAY, withdraw the items of payment from the LOCK BOX and deposit them into the COLLATERAL ACCOUNT. The BORROWERS shall deposit all items of payment in the COMMERCIAL ACCOUNT or the COLLATERAL ACCOUNT, as the case may be, in precisely the form received, except for the endorsements of the BORROWERS where necessary to permit the collection of any such items of payment, which endorsement the BORROWERS hereby agree to make. In the event the BORROWERS fail to do so, each BORROWER hereby authorizes the LENDER to make the endorsement in the name of the BORROWER. Prior to any such deposit by the BORROWERS into the COMMERCIAL ACCOUNT or the COLLATERAL ACCOUNT, as the case may be, the BORROWERS will not commingle such items of payment with any of its other funds or property but will hold them separate and apart. In the event the items of payment are required to be deposited into the COLLATERAL ACCOUNT pursuant to the term set forth above, the following terms shall apply:

Section 3.5.1. Each BORROWER hereby authorizes the LENDER, upon the occurrence and during the continuance of an EVENT OF DEFAULT and in accordance with the terms hereof, to (a) inspect all items of payment, (b) endorse all items of payment in the name of the BORROWER, and (c) deposit items of payment in the COLLATERAL ACCOUNT. The LENDER reserves the right, exercised in its sole and absolute discretion from time to time, to provide to the COLLATERAL ACCOUNT credit prior to final collection of an item of payment and to disallow credit for any item of payment that is unsatisfactory to LENDER.

Section 3.5.2. In the event items of payment are returned to the LENDER for any reason whatsoever, the LENDER may, in the exercise of its discretion from time to time, forward such items of payment a second time. Any returned items of payment shall be charged back to the COLLATERAL ACCOUNT and any credit given the BORROWERS with respect thereto shall be reversed.

Section 3.5.3. The LENDER will credit all payments received in the COLLATERAL ACCOUNT to the OBLIGATIONS, in such order of application as the LENDER determines, conditional upon final collection. Credit will be given only for cleared funds received prior to 2:00 p.m. (New York time) by the LENDER at its COLLATERAL ACCOUNT, provided, however, that for purposes of calculating interest due to the LENDER, credit will be given to collections two (2) BUSINESS DAYS

after receipt of cleared funds. In all cases, the OBLIGATIONS will be credited only with the net amounts actually received in the COLLATERAL ACCOUNT.

Section 3.6. Maintenance Of Accounts. As further security for the OBLIGATIONS, each BORROWER shall maintain its primary accounts and treasury management services with the LENDER.

Section 3.7. Further Assurances. Each BORROWER will, at its expense, promptly execute and deliver all further instruments and documents and take all further action that may be necessary or desirable or that the LENDER may reasonably request from time to time in order: (a) to perfect and protect the security interests to be created hereby; (b) to enable the LENDER to exercise and enforce its rights and remedies hereunder in respect of the COLLATERAL; or (c) otherwise to effect the purposes of this AGREEMENT, including, without limitation: (i) upon a BORROWER'S acquisition thereof, delivering to the LENDER each item of CHATTEL PAPER of a BORROWER with a face amount or value in excess of $50,000, (ii) if any RECEIVABLES are evidenced by an INSTRUMENT with a face amount or value in excess of $50,000 delivering and pledging to the LENDER such INSTRUMENT duly endorsed and accompanied by executed instruments of transfer or assignment, all in form and substance satisfactory to the LENDER, (iii) delivering to the LENDER all DOCUMENTS evidencing any material INVENTORY unless the LENDER agrees in writing that the BORROWERS may maintain possession of such DOCUMENTS, and (iv) upon the acquisition after the date hereof of any COLLATERAL with a value in excess of $50,000 for which an assignment, pledge, mortgage, or other document is required to be filed in order to grant or perfect a LIEN therein for the benefit of the LENDER, execute and deliver to the LENDER such assignment, pledge, mortgage, or other INSTRUMENT within thirty (30) days (or such later date as the LENDER may agree in its discretion) of the acquisition thereof. If the BORROWER fails to execute any instrument or document described above within ten (10) BUSINESS DAYS of being requested to do so by the LENDER, each BORROWER hereby appoints the LENDER or any officer of the LENDER as the BORROWER'S attorney in fact for purposes of executing such instruments or documents in the BORROWER'S name, place and stead, which power of attorney shall be considered as coupled with an interest and irrevocable. Notwithstanding the aforegoing to the contrary, the BORROWER shall not be required to execute or deliver any instruments or documents in order to perfect the LENDER'S lien in (i) EQUIPMENT covered by a certificate of title, (ii) leasehold interests in assets, or (iii) "Intent to Use" applications for trademarks or service marks registrations. Subject to applicable law, the BORROWER shall cause each of its DOMESTIC SUBSIDIARIES (that is not a SUBSIDIARY of a FOREIGN SUBSIDIARY) formed or acquired after the date hereof in accordance with the terms of this AGREEMENT to become a GUARANTOR by executing a guaranty agreement, in form and substance satisfactory to LENDER. Upon execution and delivery thereof, each such PERSON (i) shall automatically become a GUARANTOR and thereupon shall have all of the rights, benefits, duties, and obligations in such capacity under the LOAN DOCUMENTS and, subject to PERMITTED LIENS, will grant LIENS to LENDER, in any property of such LOAN PARTY which constitutes COLLATERAL. BORROWERS and each SUBSIDIARY of a BORROWER shall cause (i) 100% of the issued and outstanding CAPITAL STOCK of each of its DOMESTIC SUBSIDIARIES to be subject at all times to a perfected LIEN in favor of LENDER pursuant to the terms and conditions of the LOAN DOCUMENTS as LENDER shall reasonably request.

Section 3.8. After-Acquired Intellectual Property Collateral. If either BORROWER shall, at any time after the date hereof, obtain any ownership or other rights in and to any additional INTELLECTUAL PROPERTY, then the provisions of this AGREEMENT shall automatically apply thereto and any such INTELLECTUAL PROPERTY (other than any EXCLUDED PROPERTY) shall automatically constitute COLLATERAL and shall be subject to the lien and security interest created by this AGREEMENT, without further action by any party. Each BORROWER shall provide to the LENDER written notice of any such additional INTELLECTUAL PROPERTY (excluding "Intent to Use" applications for trademarks or service marks registrations) material to such BORROWER'S business which is the subject of a registration or application in the United States (including INTELLECTUAL

PROPERTY which was theretofore unregistered and becomes the subject of a registration or application in the United States) and deliver to the LENDER an instrument in form and substance reasonably acceptable to the LENDER, and undertake the filing of any instruments or statements reasonably requested in writing by the LENDER as shall be reasonably necessary to create, record, preserve, protect or perfect the LENDER'S lien and security interest in such INTELLECTUAL PROPERTY COLLATERAL. Each BORROWER shall provide such notice and deliver the appropriate agreements and make any filings requested in writing, in each case to the extent required under this section, by the end of the calendar quarter in which the BORROWER'S acquisition of the INTELLECTUAL PROPERTY rights occurred; provided that if any such acquisition occurred within the last twenty (20) days of such calendar quarter, such BORROWER may complete such actions by the end of the following calendar quarter.

Section 3.9. Guarantors. The GUARANTORS shall, jointly and severally, guaranty all of the OBLIGATIONS pursuant to guaranty agreements in form and substance acceptable to the LENDER. The guaranty obligations of ALJ HOLDINGS shall be secured by a pledge and security interest in all of the issued and outstanding CAPITAL STOCK of Faneuil, Inc. pursuant to a pledge agreement in form and substance acceptable to the LENDER.

## ARTICLE 4.
## REPRESENTATIONS AND WARRANTIES

To induce the LENDER to extend the LOANS and to enter into this AGREEMENT, each BORROWER makes the representations and warranties set forth in this Article 4. Each BORROWER acknowledges the LENDER'S justifiable right to rely upon these representations and warranties.

Section 4.1. Accuracy Of Information. All information submitted by or on behalf of the BORROWER in connection with any of the OBLIGATIONS is, taken as a whole, true, accurate and complete in all material respects as of the date made and contains no knowingly false, incomplete or misleading statements.

Section 4.2. No Litigation. There are no actions, suits, investigations, or proceedings pending or, to the knowledge of the BORROWER, threatened in writing against the BORROWER or the assets of the BORROWER not covered by insurance, which, if determined adversely to the BORROWERS could require either or both of the BORROWERS to pay over more than $150,000 in the aggregate, except as specifically disclosed on Schedule 4.2 attached hereto.

Section 4.3. No Liability Or Adverse Change. The BORROWER has no direct or contingent liability known to the BORROWER and not previously disclosed to the LENDER, nor does the BORROWER know of or have any reason to reasonably expect any material adverse change in the BORROWER'S assets, liabilities, properties, business, or condition, financial or otherwise.

Section 4.4. Title To Collateral. The BORROWER has good and marketable title to the COLLATERAL. The LIENS granted by the BORROWER to the LENDER in the COLLATERAL will have the priority required by the LOAN DOCUMENTS.

Section 4.5. Authority; Approvals And Consents.

Section 4.5.1. Authority. The BORROWER has the legal authority to enter into each of the LOAN DOCUMENTS and to perform, observe and comply with all of the BORROWER'S agreements and obligations thereunder, including, without limitation the borrowings contemplated hereby.

Section 4.5.2. Approvals. The execution and delivery by the BORROWER of each of the LOAN DOCUMENTS, the performance by the BORROWER of all of its agreements and obligations under the LOAN DOCUMENTS, and the borrowings contemplated by this AGREEMENT, have been duly authorized by all necessary action on the part of the BORROWER and do not and will not (i) contravene any provision of the organizational documents of the BORROWER; (ii) materially conflict with, or result in a material breach of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any LIEN upon any of the property of the BORROWER under any agreement, trust deed, indenture, mortgage or other instrument to which the BORROWER is a party or by which the BORROWER or any property of the BORROWER is bound or affected (except for LIENS created for the benefit of the LENDER); (iii) violate or contravene any provision of any LAW, rule or regulation (including, without limitation, Regulations G, T, U or X of the Board of Governors of the Federal Reserve System) or any order, ruling or interpretation thereunder or any decree, order of judgment of any court or governmental or regulatory authority, bureau, agency or official (all as from time to time in effect and applicable to the BORROWER); or (iv) require any waivers, consents or approvals by any of the creditors of the BORROWER.

Section 4.5.3. Consents. Other than filings and recordings required to perfect the security interests and LIENS granted hereunder, no approval, consent, order, authorization or license by, or giving notice to, or taking any other action with respect to, any governmental or regulatory authority or agency is required for the execution and delivery by the BORROWER of the LOAN DOCUMENTS or for the performance by the BORROWER of any of the agreements and obligations thereunder.

Section 4.6. Binding Effect Of Documents, Etc. Each of the LOAN DOCUMENTS which the BORROWER has executed and delivered as contemplated and required to be executed and delivered as of the date of CLOSING by this AGREEMENT, has been duly executed and delivered by the BORROWER and is the legal, valid and binding obligation of the BORROWER and is enforceable against the BORROWER in accordance with all stated terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principals (whether enforcement is sought by proceedings in law or equity).

Section 4.7. Perfection Certificates. All of the information set forth in the Perfection Certificate executed by the BORROWER and delivered to the LENDER prior to the date hereof, taken as a whole, is true, accurate and complete in all material respects and not materially misleading.

Section 4.8. No Events Of Default. There is not currently existing any action, event, or condition which presently constitutes a DEFAULT or an EVENT OF DEFAULT.

Section 4.9. Taxes. All Federal and other material tax returns, reports and statements, including information returns, required by any GOVERNMENTAL AUTHORITY to be filed by the BORROWER or its SUBSIDIARIES have been filed with the appropriate GOVERNMENTAL AUTHORITY, and all material CHARGES have been paid prior to the date on which any fine, penalty, interest or late charge may be added thereto for nonpayment thereof, excluding CHARGES or other amounts being contested in accordance with Section 5.8 and unless the failure to so file or pay would not reasonably be expected to result in fines, penalties or interest. Proper and accurate amounts have been withheld by the BORROWER and its SUBSIDIARIES from its respective employees for all periods in material compliance with all applicable federal, state, local and foreign laws and such withholdings have been timely paid to the respective GOVERNMENTAL AUTHORITIES. Schedule 4.9 sets forth as of the CLOSING those taxable years for which the BORROWER'S or its SUBSIDIARIES' tax returns are currently being audited by the Internal Revenue Service or any other applicable GOVERNMENTAL AUTHORITY and any assessments or threatened assessments in connection with such audit, or otherwise currently outstanding. Except as described in Schedule 4.9, as of the CLOSING, neither BORROWER

nor any SUBSIDIARY thereof has executed or filed with any GOVERNMENTAL AUTHORITY any agreement or other document extending, or having the effect of extending, the period for assessment or collection of any material CHARGES. Neither BORROWER nor any of its SUBSIDIARIES is liable for any material CHARGES: (a) under any agreement (including any tax sharing agreements) or (b) to the BORROWER'S knowledge, as a transferee. As of the CLOSING, neither the BORROWER nor any of its SUBSIDIARIES has agreed or been requested to make any adjustment under Section 481(a) of the Code, by reason of a change in accounting method or otherwise, which could reasonably be expected to cause a MATERIAL ADVERSE EVENT.

Section 4.10. Compliance With Laws. The BORROWER has complied in all material respects with all applicable LAWS, including, but not limited to, all LAWS with respect to: (a) all restrictions, specifications, or other requirements pertaining to products that it sells or to the services it performs; (b) the conduct of its business; and (c) the use, maintenance, and operation of the real and personal properties owned or leased by it in the conduct of its business.

Section 4.11. No Subsidiaries. Faneuil, Inc.'s only SUBSIDIARY is Faneuil Toll Operations, LLC and the CANADIAN SUBSIDIARY, and Faneuil Toll Operations, LLC has no SUBSIDIARIES.

Section 4.12. Eligible Accounts. Each ACCOUNT which the BORROWER contends should be included in the calculation of the BORROWING BASE from time to time will be an ELIGIBLE ACCOUNT based on BORROWER'S good faith determination based on the criteria set forth herein. At the time each ELIGIBLE ACCOUNT is listed on or included in (whether singularly or in the aggregate with other ELIGIBLE ACCOUNTS) a schedule or report delivered to the LENDER to be included in the calculation of the BORROWING BASE, all of such ELIGIBLE ACCOUNTS will have been generated in compliance with the BORROWER'S normal credit policies as historically in effect (or as modified from time to time on prior written notice of the LENDER), or on such other reasonable terms disclosed in writing to the LENDER in advance of the creation of such ACCOUNTS, and such terms shall be expressly set forth on the face of all invoices.

Section 4.13. Approvals. The BORROWER possesses all material franchises, approvals, licenses, contracts, merchandising agreements, merchandising contracts and governmental approvals, registrations and exemptions necessary for it lawfully to conduct its business and operation as presently conducted and as anticipated to be conducted after CLOSING.

Section 4.14. Financial Statements. The financial statements of the BORROWER which have been delivered to the LENDER prior to the date of this AGREEMENT, fairly present the financial condition of the BORROWER in all material respects as of the respective dates thereof and the results and operations of the BORROWER in all material respects for the fiscal periods ended on such respective dates, all in accordance with G.A.A.P. The BORROWER has no direct or contingent liability or obligation known to the BORROWER and not disclosed on the financial statements delivered to the LENDER or prior to the date hereof, except as set forth on Schedule 4.14 hereof. There has been no adverse change in the financial condition of the BORROWER since the financial statements of the BORROWER delivered to the LENDER prior to the date hereof, and the BORROWER does not know of or have any reason to reasonably expect any material adverse change in the assets, liabilities, properties, business, or condition, financial or otherwise, of the BORROWER, except as set forth on Schedule 4.14 hereof.

Section 4.15. Solvency. Faneuil, Inc. will be SOLVENT both before and after CLOSING, after giving full effect to the OBLIGATIONS and all of Faneuil, Inc.'s liabilities.

Section 4.16. Employee Relations. Neither the BORROWERS nor any SUBSIDIARY of a BORROWER is a party or otherwise subject to any collective bargaining or other agreement with any

labor union, nor is any such agreement currently being negotiated. For the past five years, there has not been a representation question before the National Labor Relations Board respecting any of the employees of either BORROWER or either BORROWER'S SUBSIDIARIES and, to the knowledge of BORROWERS, there are no campaigns currently being conducted to solicit cards from employees of either BORROWER or either BORROWER'S SUBSIDIARIES to authorize representation by any labor union or labor organization. To the knowledge of the BORROWERS, neither BORROWER nor any of the SUBSIDIARIES of a BORROWER is engaged, or, since January 1, 2011, has been engaged, in any unfair labor practice (as defined under the National Labor Relations Act). For the past five years, there has not been any work stoppage, lockout, strike or labor dispute involving a BORROWER or either BORROWER'S SUBSIDIARY, and no such work stoppage, lockout, strike or labor dispute is pending or, to the knowledge of either BORROWER, threatened in writing to commence.

Section 4.16.1. There are no proceedings pending or, to the knowledge of either BORROWER, threatened in writing against a BORROWER or either BORROWER'S SUBSIDIARY by, on behalf of or with respect to any employee or contractor of a BORROWER or either BORROWER'S SUBSIDIARY (each a "Worker") or group of Workers that would be material to a BORROWER and its SUBSIDIARIES, taken as a whole. There are no charges, investigations, administrative proceedings or formal complaints of discrimination (including discrimination based upon sex, age, marital status, race, national origin, sexual orientation, disability or veteran status) threatened in writing or pending before the Equal Employment Opportunity Commission, the National Labor Relations Board, the U.S. Department of Labor, the U.S. Occupational Health and Safety Administration, the Workers Compensation Appeals Board, or any other GOVERNMENTAL AUTHORITY against either BORROWER or any of a BORROWER'S SUBSIDIARIES by, on behalf of or with respect to any Worker which would reasonably be expected to, individually or in the aggregate, result in a MATERIAL ADVERSE EVENT.

Section 4.16.2. Each BORROWER and each of the BORROWERS' SUBSIDIARIES are in compliance in all material respects with all LAWS related to the terms and conditions of employment or retention of its Workers, including but not limited to wages and other compensation, overtime requirements, classification of employees and independent contractors under federal and state laws, hours of work, leaves of absence, equal opportunity, immigration, occupational health and safety and workers' compensation.

Section 4.17. Employee Benefit Plans.

Section 4.17.1. Compliance. The BORROWER and its ERISA AFFILIATES are in compliance in all material respects with all applicable provisions of ERISA and the regulations thereunder and of the CODE with respect to all EMPLOYEE BENEFIT PLANS.

Section 4.17.2. Absence Of Termination Event. No TERMINATION EVENT has occurred or is reasonably expected to occur with respect to any GUARANTEED PENSION PLAN.

Section 4.17.3. Actuarial Value. The actuarial present value (as defined in Section 4001 of ERISA) of all benefit commitments (as defined in Section 4001 of ERISA) under each GUARANTEED PENSION PLAN does not exceed the assets of that plan, or if the actuarial present value of all benefit commitments under a GUARANTEED PENSION PLAN does exceed the assets of that plan, such information is set forth in the BORROWER'S financial statements delivered to the LENDER.

Section 4.17.4. No Withdrawal Liability. Neither the BORROWER nor any of its ERISA AFFILIATES has incurred or reasonably expects to incur any withdrawal liability under ERISA in connection with any MULTIEMPLOYER PLANS.

Section 4.18. Environmental Conditions. Neither the conduct nor operation of the BORROWERS' business, nor any condition of any real property currently owned, leased or operated by the BORROWER or any of the BORROWER'S SUBSIDIARIES nor, to the knowledge of a BORROWER , any condition of any real property owned, leased or operated after January 1, 2014 but no longer owned, leased or operated by a BORROWER or any of the BORROWER'S SUBSIDIARIES, is, or to the knowledge of either BORROWER , has since January 1, 2014 been, in material violation of applicable ENVIRONMENTAL LAWS. None of BORROWERS nor any SUBSIDIARY has received or been subject to any written notice, proceeding, written order or written information request from any PERSON stating or alleging that a BORROWER or either BORROWER'S SUBSIDIARIES or any of their respective current or former properties or assets (but with respect to former properties or assets, only those properties or assets owned or operated after January 1, 2014) have been or are in violation of any applicable ENVIRONMENTAL LAW or are otherwise liable pursuant to any applicable ENVIRONMENTAL LAW, excluding any such matters that have been fully resolved with no further liability to either BORROWER or either BORROWER'S SUBSIDIARY. To the knowledge of the BORROWERS, there have been no spills, disposals or releases of hazardous materials on, at, under, or migrating from any real property currently owned, leased or operated by either BORROWER or either BORROWER'S SUBSIDIARY, or on, at, under or migrating from any real property owned, leased or operated after January 1, 2014 but no longer owned, leased or operated by a BORROWER or either BORROWER'S SUBSIDIARIES, that is currently or was previously subject to any investigation, remediation or monitoring with respect to hazardous materials, excluding any such matters that have been fully resolved or are not reasonably likely to result in material liability. The BORROWERS have provided the LENDER with all material written reports in the possession of a BORROWER or either BORROWER'S SUBSIDIARY related to the BORROWERS' business liability arising from applicable ENVIRONMENTAL LAWS.

Section 4.19. Deposit and Disbursement Accounts. Schedule 4.19 lists all banks and other financial institutions at which the BORROWER maintains deposit or other accounts as of the CLOSING, and such Schedule correctly identifies the name, address and telephone number of each depository, the name in which the account is held, a brief description of the purpose or type of the account, and the complete account number therefore.

Section 4.20. Government Contracts. Except as set forth in Schedule 4.20, as of the CLOSING, the BORROWER is not a party to any contract or agreement with any GOVERNMENTAL AUTHORITY which are subject to the Federal Assignment of Claims Act (31 U.S.C. Section 3727) or any similar state or local law.

Section 4.21. Bonding; Licenses. Except as set forth in Schedule 4.21, as of the CLOSING, the BORROWER is not a party to or bound by any surety bond agreement or bonding requirement with respect to products or services sold by it or any INTELLECTUAL PROPERTY LICENSE agreement with respect to products sold by it.

Section 4.22. Agreements and Other Documents. As of the CLOSING, the BORROWER has provided to the LENDER or its counsel materially accurate and complete copies (or summaries) of all of the following agreements or documents to which it is subject and each of which is listed in Schedule 4.22: (a) supply agreements and purchase agreements not terminable by the BORROWER within sixty (60) days following written notice issued by the BORROWER and involving transactions in excess of One Million Dollars ($1,000,000.00) per annum; (b) leases of equipment having a remaining term of one (1) year or longer and requiring aggregate rental and other payments in excess of One Hundred Thousand Dollars ($100,000.00) per annum; (c) licenses and permits held by the BORROWER, the absence of which could be reasonably likely to result in a MATERIAL ADVERSE EVENT; (d) instruments and documents evidencing any INDEBTEDNESS of the BORROWER in excess of Two Hundred Thousand Dollars ($200,000.00) and any LIEN granted by the BORROWER with respect thereto that will remain in

effect after the CLOSING other than those agreements in which the LENDER is a party; and (e) franchise agreements and instruments and agreements evidencing the issuance of any equity securities, warrants, rights or options to purchase equity securities of the BORROWER.

Section 4.23. OFAC Matters. Neither of the BORROWERS, any SUBSIDIARIES or, to the best of each BORROWER'S knowledge, their AFFILIATES (i) is a SANCTIONED PERSON or (ii) does business in a SANCTIONED COUNTRY or with a SANCTIONED PERSON in violation of the economic sanctions of the United States administered by OFAC. The proceeds of the LOANS will not be used to fund any operation in, finance any investments or activities in or make any payments to, a SANCTIONED PERSON or a SANCTIONED COUNTRY. Neither of the BORROWER, any SUBSIDIARY or, to the best of each BORROWER'S knowledge, any AFFILIATES of the foregoing is a PROHIBITED PERSON. Neither BORROWER nor any of their SUBSIDIARIES or AFFILIATES, to their knowledge, has engaged directly or indirectly in any transaction that evades or avoids, or has the purpose of evading or avoiding, or violates in any material respect the requirements or prohibitions set forth in the ANTI-TERRORISM ORDER or the USA Patriot Act. Neither the making of the LOANS hereunder or the contemplated use of proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department or any enabling legislation or executive order relating thereto. The BORROWER does not engage in any dealings or transactions with a PERSON described or designated in the Specially Designation Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the ANTI-TERRORISM ORDER ("Designated Person") in violation of any LAW. The BORROWER is in compliance, in all material respects, with the USA Patriot Act.

## ARTICLE 5.
## AFFIRMATIVE COVENANTS

Each BORROWER agrees during the term of this AGREEMENT and while any OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) are outstanding and unpaid to do and perform (and to cause each of its SUBSIDIARIES to do and perform as if referenced herein) each of the acts and promises set forth in this Article 5:

Section 5.1. Payment. All OBLIGATIONS shall be paid in full when and as due.

Section 5.2. Insurance. The BORROWERS shall obtain and maintain such insurance coverages as are reasonable and customary for businesses engaged in activities similar to the business activities of the BORROWERS. Without limitation to the foregoing, the BORROWERS shall maintain for all of its assets and properties, whether real, personal, or mixed and including but not limited to the COLLATERAL, fire and extended coverage casualty insurance in amounts satisfactory to the LENDER and sufficient to prevent any co-insurance liability (which amount shall be the full insurable value of the assets and properties insured unless the LENDER in writing agrees to a lesser amount (such consent not to be unreasonably withheld, conditioned or delayed)), naming the LENDER as lender loss payee with respect to the COLLATERAL, with insurance companies and upon policy forms which are acceptable to and approved by the LENDER. The BORROWERS shall submit to the LENDER the certificates of the casualty insurance policies and paid receipts evidencing payment of the premiums due on the same. The casualty insurance policies shall be endorsed so as to make them noncancellable unless thirty (30) days prior notice of cancellation is provided to the LENDER. The proceeds of any insured loss shall be applied by the LENDER to the OBLIGATIONS, in such order of application as determined by the LENDER, provided that if no EVENT OF DEFAULT has occurred and is continuing, the LENDER shall permit the use of the insurance proceeds to repair or replace damaged or destroyed COLLATERAL by the BORROWERS within 180 days after the LENDER'S receipt of such proceeds before any such application to the OBLIGATIONS, provided such insurance proceeds are delivered to the LENDER and held by the LENDER in a pledged collateral account to be disbursed upon the LENDER'S receipt of

reasonably acceptable evidence of the cost of the repair or replacement of the damaged or destroyed COLLATERAL.

Section 5.3. Books And Records. The BORROWERS shall notify the LENDER in writing if either BORROWER materially modifies or changes its method of accounting or enters into, modifies, or terminates any material agreement presently existing, or at any time hereafter entered into with any third party accounting firm for the preparation and/or storage of the BORROWERS' accounting records.

Section 5.4. Collection Of Accounts; Sale Of inventory. The BORROWERS shall only collect their RECEIVABLES and sell its INVENTORY in the ordinary course of the BORROWERS' business.

Section 5.5. Notice Of Litigation And Proceedings. The BORROWERS shall give prompt notice to the LENDER of any action, suit, citation, violation, direction, notice or proceeding before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting either of the BORROWERS, or the assets or properties thereof, which, if determined adversely to the BORROWERS: (a) could require either or both of the BORROWERS to pay over more than $150,000 or deliver assets the value of which exceeds that sum (whether or not the claim is considered to be covered by insurance); or (b) could reasonably be expected to have a material adverse effect upon the financial condition or business operations of the BORROWERS

Section 5.6. Payment Of Liabilities To Third Persons. The BORROWERS shall pay when and as due, or within applicable grace periods, all material liabilities due to third persons, except when the amount thereof is being contested in good faith by appropriate proceedings and with adequate reserves therefore being set aside by the BORROWERS.

Section 5.7. Notice Of Change Of Business Location. The BORROWERS shall notify the LENDER thirty (30) days in advance of: (a) any change in the location of its existing offices or place of business; (b) the establishment of any new, or the discontinuation of any existing, material place of business; and (c) any change in or addition to the locations at which the COLLATERAL is kept. Prior to moving any COLLATERAL (other than fixtures) with a value in excess of $100,000 to any location not owned by the BORROWERS (other than deliveries to ACCOUNT DEBTORS of sold or leased items), the BORROWERS shall make commercially reasonable efforts to obtain and deliver to the LENDER an agreement, in form and substance reasonably acceptable to the LENDER, pursuant to which the owner of such location shall: (a) subordinate any rights which it may have, or thereafter may obtain, in any of the COLLATERAL to the rights and security interests of the LENDER in the COLLATERAL; and (b) allow the LENDER access to the COLLATERAL in order to remove the COLLATERAL from such location. In the event any COLLATERAL with a value in excess of $100,000 is stored with a warehousemen or other bailee, and such COLLATERAL is evidenced by a negotiable document of title, the BORROWERS shall immediately deliver the document of title to the LENDER.

Section 5.8. Payment Of Taxes. The BORROWERS shall pay or cause to be paid when and as due all federal and all material local taxes, assessments and charges or levies imposed upon it or on any of its property or which it is required to withhold and pay over to the taxing authority or which it must pay on its income, except where contested in good faith, by appropriate proceedings and at its own cost and expense; provided, however, that the BORROWERS shall not be deemed to be contesting in good faith by appropriate proceedings unless: (a) such proceedings operate to prevent the taxing authority from collecting the taxes, assessments or charges; (b) the COLLATERAL is not subject to sale, forfeiture or loss during such proceedings; (c) the BORROWERS' contest does not subject the LENDER to any claim by the taxing authority or any other person; (d) the BORROWERS establish appropriate reserves, in accordance with prudent business practices, for the payment of all taxes, assessments, charges, levies, legal fees, court costs and other expenses for which the BORROWERS would be liable if unsuccessful in

the contest; and (e) at the conclusion of the proceedings, the BORROWERS promptly pay all amounts determined to be payable, including but not limited to all taxes, assessments, charges, levies, legal fees and court costs.

Section 5.9. Rights of Inspections, Field Examination, Etc. The BORROWERS shall permit authorized representatives of the LENDER to visit and inspect the properties of the BORROWERS, to review, audit, check and inspect the COLLATERAL with reasonably prior notice and during normal business hours (unless there is a continuing EVENT OF DEFAULT, in which no notice shall need to be provided), to review, audit, check and inspect the BORROWERS' other books of record with reasonably prior notice and during normal business hours (unless there is a continuing EVENT OF DEFAULT, in which no notice shall need to be provided) and to make abstracts and photocopies thereof, and to discuss the affairs, finances and accounts of the BORROWERS with the officers, directors, employees and other representatives of the BORROWERS and its accountants, all with reasonably prior notice and at such times during normal business hours (unless there is a continuing EVENT OF DEFAULT, in which no notice shall need to be provided) and other reasonable times and as often as the LENDER may reasonably request; provided, however, that unless an EVENT OF DEFAULT shall have occurred and be continuing, the BORROWERS shall not be liable for any LENDER EXPENSES incurred for more than two (2) such reviews, audits, inspections or other actions taken or made pursuant to this Section per FISCAL YEAR. Except as otherwise provided herein, any and all costs and expenses incurred by, or on behalf of, the LENDER in connection with the conduct of any of the foregoing shall be part of the LENDER EXPENSES and shall be payable to the LENDER upon demand.

Section 5.10. Notice Of Events Affecting Collateral; Compromise Of Receivables; Records. The BORROWERS shall promptly report to the LENDER all customer credits and all returns, repossessions and recoveries of INVENTORY, in each case in an amount or with a value in excess of One Hundred Thousand Dollars ($100,000.00).

Section 5.10.1. The BORROWERS shall not, without the LENDER'S prior written consent, settle or adjust any dispute or claim, or grant any discount (except ordinary trade discounts), credit or allowance or accept any return of merchandise, except in the ordinary course of its business.

Section 5.10.2. Upon the occurrence and during the continuance of an EVENT OF DEFAULT, the LENDER may (i) settle or adjust disputes or claims directly with ACCOUNT DEBTORS for amounts and upon terms which it considers in good faith to be commercially reasonable and (ii) notify ACCOUNT DEBTORS on the BORROWERS' RECEIVABLES that such RECEIVABLES have been assigned to the LENDER and that payments in respect thereof shall be made directly to the LENDER.

Section 5.10.3. Where the BORROWERS sell goods or services to a customer which also sells goods or services to it or which has other legitimate claims against it, the BORROWERS will so advise the LENDER immediately to permit the LENDER to establish a reserve therefore.

Section 5.10.4. Each of the BORROWERS hereby irrevocably authorizes and appoints the LENDER as its attorney-in-fact, at the BORROWER'S sole cost and expense, to exercise, solely upon the occurrence and during the continuance of an EVENT OF DEFAULT, all of the following powers, which being coupled with an interest, shall be irrevocable until all of the OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) have been paid in full: (A) to receive, take, endorse, sign, assign and deliver, all in the name of the LENDER or the BORROWER, any and all checks, notes, drafts, and other documents or instruments relating to the COLLATERAL; (B) to receive, open and dispose of all mail addressed to the BORROWER and to notify postal authorities to change the address for delivery thereof to such address as the LENDER may designate; and (C) to take or bring, in the name of the LENDER or the BORROWER, all steps, actions, suits or proceedings deemed by the LENDER necessary or desirable to enforce or effect collection of the

BORROWER'S RECEIVABLES or file and sign the BORROWER'S name on a proof of claim in bankruptcy or similar document against any obligor of the BORROWER. The BORROWERS shall maintain a record of their electronic CHATTEL PAPER that, if in excess of One Hundred Thousand Dollars ($100,000.00), identifies the LENDER as the assignee thereof and otherwise in a manner such that the LENDER has control over such CHATTEL PAPER for purposes of the UCC.

Section 5.11. Documentation Of Collateral. The BORROWERS agree that upon the request of the LENDER, the BORROWERS will provide the LENDER with: (a) written statements or schedules identifying and describing any material portion of the COLLATERAL, and all additions, substitutions, and replacements thereof, in reasonable detail; (b) copies of ACCOUNT DEBTORS' material invoices or billing statements; (c) evidence of shipment or delivery of material goods or merchandise to or performance of material services for ACCOUNT DEBTORS; and (d) such other schedules and information as the LENDER reasonably may reasonably require with respect to the COLLATERAL. The failure of the BORROWERS to give any of such items to the LENDER shall not affect, terminate, modify or otherwise limit the LENDER'S security interests in the COLLATERAL. The LENDER shall have the right, upon the occurrence and during the continuance of an EVENT OF DEFAULT, to verify the eligibility of the BORROWERS' RECEIVABLES, including obtaining verification of the RECEIVABLES directly from ACCOUNT DEBTORS.

Section 5.12. Reporting Requirements. The BORROWERS shall submit the following items to the LENDER:

Section 5.12.1. Monthly Reports. Within twenty (20) calendar days after the end of each calendar month the BORROWERS shall submit to the LENDER: (i) an ACCOUNTS report and aging, reconciled to month-end, in a form reasonably acceptable to the LENDER and (ii) an accounts payable report and aging, reconciled to month-end, in a form reasonably acceptable to the LENDER.

Section 5.12.2. Borrowing Base Certificate. As soon as available but in any event within twenty (20) calendar days after the end of each calendar month, the BORROWERS shall submit to the LENDER a borrowing base certificate as of the end of such month, substantially in the form of Exhibit 5.12.2 attached hereto.

Section 5.12.3. Quarterly Financial Statements; Contract Summary. As soon as available and in any event within forty-five (45) calendar days after the end of each fiscal quarter, the BORROWERS shall submit to the LENDER: (a) a consolidated balance sheet of the BORROWERS and their SUBSIDIARIES as of the end of such fiscal quarter and a consolidated statement of income and retained earnings of the BORROWERS and their SUBSIDIARIES for such fiscal quarter, and all prepared in accordance with G.A.A.P. and certified by a RESPONSIBLE OFFICER of the BORROWERS (subject to year-end adjustment); and (b) a contact summary report for the BORROWERS in form reasonably acceptable to the LENDER.

Section 5.12.4. Annual Financial Statements. As soon as available and in any event within ninety (90) calendar days after the end of each FISCAL YEAR of the BORROWERS, the BORROWERS shall submit to the LENDER a consolidated balance sheet of the BORROWERS and its SUBSIDIARIES as of the end of such FISCAL YEAR and a consolidated statement of income and retained earnings of the BORROWERS and their SUBSIDIARIES for such FISCAL YEAR, and a consolidated statement of cash flow of the BORROWERS and their SUBSIDIARIES for such FISCAL YEAR, all in reasonable detail and stating in comparative form the respective consolidated figures for the corresponding date and period in the prior FISCAL YEAR and all prepared in accordance with G.A.A.P. and audited by independent certified public accountants selected by the BORROWERS and acceptable to the LENDER.

Section 5.12.5. Management Letters. Promptly upon receipt thereof, the BORROWERS shall submit to the LENDER copies of any material reports submitted to the BORROWERS or any SUBSIDIARY by independent certified public Accountants in connection with the examination of the financial statements of the BORROWERS or any SUBSIDIARY made by such Accountants.

Section 5.12.6. Certificates Of No Default. Within forty-five (45) calendar days after the end of each of the first three (3) fiscal quarters of each FISCAL YEAR of the BORROWERS and within ninety (90) calendar days after the end of the fourth fiscal quarter of each FISCAL YEAR of the BORROWERS, the BORROWERS shall submit to the LENDER a certificate of a RESPONSIBLE OFFICER of the BORROWERS certifying that: (i) there exists no DEFAULT or EVENT OF DEFAULT, or if a DEFAULT or an EVENT OF DEFAULT exists, specifying the nature thereof, the period of existence thereof and what action the BORROWERS propose to take with respect thereto; (ii) no material adverse change in the condition, financial or otherwise, business, property or results of operations of the BORROWERS has occurred since the previous certificate was sent to the LENDER by the BORROWERS or, if any such change has occurred, specifying the nature thereof and what action the BORROWERS have taken or propose to take with respect thereto; (iii) all insurance premiums then due have been paid; (iv) all federal and all material local taxes then due have been paid or, for such taxes which have not been paid, a statement of such taxes not paid and a description of the BORROWERS' rationale therefore; (v) no litigation, investigation or proceedings, or injunction, writ or restraining order is pending or threatened in writing, which, if determined adversely to the BORROWERS, could reasonably be expected to have a material adverse effect upon the financial condition or business operations of the BORROWERS, or, if any such litigation, investigation, proceeding, injunction, writ or order is pending, describing the nature thereof; and (vi) stating whether or not the BORROWERS are in compliance with the covenants in this AGREEMENT, including a calculation of the financial covenants.

Section 5.12.7. ALJ Holdings Reports. Promptly after the issuance thereof, the BORROWERS shall submit to the LENDER copies of the quarterly and annual financial reports issued by ALJ HOLDINGS.

Section 5.12.8. Management Changes. The BORROWERS shall notify the LENDER immediately of any changes in the personnel holding the positions of either President/Chief Executive Officer or Chief Financial Officer of either BORROWER.

Section 5.12.9. General Information. In addition to the items set forth in subparagraphs 5.12.1 through 5.12.8 above, the BORROWERS agree to submit to the LENDER such other information respecting the condition or operations, financial or otherwise, of the BORROWERS as the LENDER may reasonably request from time to time.

Section 5.13. Employee Benefit Plans And Guaranteed Pension Plans. The BORROWERS will, and will cause each of its ERISA AFFILIATES that it controls to: (a) comply in all material respects with all requirements imposed by ERISA and the CODE, applicable from time to time to any of its GUARANTEED PENSION PLANS or EMPLOYEE BENEFIT PLANS; (b) make full payment when due of all amounts which, under the provisions of EMPLOYEE BENEFIT PLANS or under applicable LAW, are required to be paid as contributions thereto; (c) not permit to exist any violation of the funding standards of Sections 430 and 436 of the CODE and not permit circumstances to exist that are reasonably likely to result in the imposition of a lien pursuant to Section 430(k) of the Internal Revenue Code or Section 303(k) of ERISA; (d) file on a timely basis all material reports, notices and other filings required by any governmental agency with respect to any of its EMPLOYEE BENEFITS PLANS; (e) make any payments to MULTIEMPLOYER PLANS required to be made under any agreement relating to such MULTIEMPLOYER PLANS, or under any LAW pertaining thereto; (f) not amend or otherwise alter any GUARANTEED PENSION PLAN if the effect would be to cause the actuarial present value of all benefit commitments under any GUARANTEED PENSION PLAN to be less than the current value of the assets

of such GUARANTEED PENSION PLAN allocable to such benefit commitments; (g) furnish to all participants, beneficiaries and employees under any of the EMPLOYEE BENEFIT PLANS, within the periods prescribed by LAW, all reports, notices and other information to which they are entitled under applicable LAW; and (h) take no action which would cause any of the EMPLOYEE BENEFIT PLANS to fail to meet any qualification requirement imposed by the CODE. As used in this Section, the terms "actuarial present value", "benefit commitments" and "current value" have the meaning specified in Section 4001 of ERISA.

Section 5.14. Maintenance Of Fixed Assets. The BORROWERS shall (i) maintain and preserve all of their material property necessary to their business in a state of good working order and condition, ordinary wear and tear excepted and (ii) comply, and cause each of its SUBSIDIARIES to comply, at all times with the provisions of all leases to which it is a party as lessee or under which it occupies property, so as to prevent any loss or forfeiture thereof or thereunder, except to the extent any such noncompliance could not reasonably be expected to be a MATERIAL ADVERSE EVENT.

Section 5.15. Federal Assignment Of Claims Act. The BORROWERS shall notify the LENDER if any RECEIVABLE constituting and ELIGIBLE ACCOUNT arises out of a contract with the United States of America, or any department, agency or instrumentality thereof, and, to the extent such contract is material to the BORROWERS business or operations, if requested by the LENDER, shall execute all documents or instruments and shall take all reasonable steps or actions reasonably required by the LENDER so that all monies due or to become due under such contract are assigned to the LENDER and notice given thereof to the United States in accordance with the requirements of the Federal Assignment of Claims Act, as amended.

Section 5.16. Compliance With Laws. The BORROWERS shall, and shall cause their respective SUBSIDIARIES to, comply in all material respects with all applicable LAWS, including, but not limited to, all LAWS with respect to: (a) all restrictions, specifications, or other requirements pertaining to products that it sells or to the services it performs; (b) the conduct of its business; (c) the use, maintenance, and operation of the real and personal properties owned or leased by it in the conduct of its business; and (d) the obtaining and maintenance of all necessary and material licenses, franchises, permits and governmental approvals, registrations and exemptions necessary to engage in its business. Without limiting the generality of the preceding sentence, the BORROWERS shall: (i) comply in all material respects with, and take commercially reasonable steps to obtain such compliance by all tenants and subtenants, if any, with, all applicable ENVIRONMENTAL LAWS and obtain and comply in all material respects with and maintain, and take commercially reasonable steps so that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable ENVIRONMENTAL LAWS; (ii) conduct and complete all material investigations, studies, sampling and testing, and all material remedial, removal and other actions required under ENVIRONMENTAL LAWS, and promptly comply with all lawful orders and directives of any GOVERNMENTAL AUTHORITY regarding ENVIRONMENTAL LAWS; and (iii) defend, indemnify and hold harmless the LENDER, and its employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of, noncompliance with or liability under any ENVIRONMENTAL LAWS applicable to the operations of the BORROWERS, or any orders, requirements or demands of governmental authorities related thereto, including, without limitation, reasonable attorney's and consultant's fees, investigation and laboratory fees, response costs, court costs and litigation expenses, except to the extent that any of the foregoing directly result from the gross negligence or willful misconduct of the party seeking indemnification therefore. The BORROWERS agree to promptly notify the LENDER of any RELEASE of a REGULATED SUBSTANCE on, to or from any FACILITY in material violation of any ENVIRONMENTAL LAWS or of any notice received by the BORROWERS from a GOVERNMENTAL AUTHORITY that the BORROWERS or any FACILITY is not in compliance with

any ENVIRONMENTAL LAWS.

Section 5.17. Debt Service Coverage. The BORROWERS and their SUBSIDIARIES shall maintain a ratio of CASH FLOW to DEBT SERVICE of not less than 1.30 to 1.00 for each four (4) quarter period ending on the last day of a fiscal quarter.

Section 5.18. Leverage Ratio. The BORROWERS shall maintain a LEVERAGE RATIO of not more than: (a) 2.5 to 1.0 as of the date of CLOSING and as of the end of each fiscal quarter from CLOSING through and including September 30, 2015; and (b) 2.0 to 1.0 as of December 31, 2015 and as of the end of each fiscal quarter thereafter through and including September 30, 2016; and (c) 1.5 to 1.0 as of December 31, 2016 and as of the end of each fiscal quarter thereafter.

Section 5.19. Tangible Net Worth. Faneuil, Inc. shall as of the end of each fiscal quarter maintain a TANGIBLE NET WORTH of not less than Five Million Five Hundred Thousand Dollars ($5,500,000.00).

Section 5.20. Preservation of Existence, Etc. Each BORROWER shall maintain and preserve, and cause each of its SUBSIDIARIES to maintain and preserve, its existence, rights and privileges, and become or remain, and cause each of its SUBSIDIARIES to become or remain, duly qualified and in good standing in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary.

## ARTICLE 6.
## NEGATIVE COVENANTS

Each BORROWER covenants while any OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) are outstanding and unpaid not to do or to permit to be done or to occur (and cause each of its SUBSIDIARIES not to do or to permit to be done or to occur as if referenced herein) any of the acts or occurrences set forth in this Article 6 without the prior written authorization of the LENDER.

Section 6.1. No Change Of Name, Merger, Etc. No BORROWER shall change its name or enter into any merger, consolidation, reorganization or recapitalization.

Section 6.2. No Sale Or Transfer Of Assets. No BORROWER shall sell, transfer, lease or otherwise dispose of all or any part of the COLLATERAL or all or any part of its other assets, except that: (a) INVENTORY may be sold to ACCOUNT DEBTORS in the ordinary course of the BORROWER'S business; (b) payments may be made to trade creditors and vendors in the ordinary course of business; (c) transfers consisting of the granting of PERMITTED LIENS, investments permitted under Section 6.7, or RESTRICTED PAYMENTS permitted under Section 6.5; (d) the granting of licenses of over the counter software and licenses for the use of INTELLECTUAL PROPERTY entered into in the ordinary course of business; (e) transfers of EQUIPMENT to the extent that such EQUIPMENT is exchanged for credit against the purchase price of similar replacement EQUIPMENT or the proceeds of such transfer are applied against the purchase price of such replacement EQUIPMENT; (f) transfers of cash and cash equivalents in the ordinary course of business; (g) transfers of other property (excluding RECEIVABLES) having a fair market value not to exceed $100,000 in the aggregate for any FISCAL YEAR; (h) the BOSTON SCIENTIFIC DISPOSITION; and (i) obsolete EQUIPMENT may be sold or otherwise disposed of in the ordinary course of the BORROWERS' business.

Section 6.3. No Encumbrance Of Assets. No BORROWER shall mortgage, pledge, grant or permit to exist a security interest in or LIEN upon any of its assets of any kind, now owned or hereafter acquired, except for PERMITTED LIENS.

Section 6.4. No Indebtedness. No BORROWER shall incur, create, assume, or permit to exist any INDEBTEDNESS except PERMITTED INDEBTEDNESS.

Section 6.5. Restricted Payments. No BORROWER shall make any RESTRICTED PAYMENTS other than (a) any dividends payable solely in CAPITAL STOCK and (b) repurchases pursuant to the terms of employee stock purchase plans, employee restricted stock agreements, the VOTING AND INVESTOR RIGHTS AGREEMENT, stockholder rights plans, director or consultant stock option plans, or similar plans, unless, in each case (*i.e.*, clauses (a) and (b)), if an EVENT OF DEFAULT has occurred and is continuing or would result therefrom after giving pro forma effect thereto, and (c) payments made pursuant to Section 2 of the TAX SHARING AGREEMENT.

Section 6.6. Transactions With Affiliates. No BORROWER shall make any contract for the purchase of any items from any AFFILIATE or the performance of any services (including employment services) by any AFFILIATE, unless such contract is on terms which fairly represent fair and reasonable terms that could be obtained in arm's length transactions of a similar nature with independent third PERSONS.

Section 6.7. Loans, Investments And Sale-Leasebacks. No BORROWER shall make any advance, guarantee of obligation, loan, investment, or material acquisition of assets or enter into any sale-leaseback transactions other than (a) investments in either BORROWER, (b) investments(including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business, (c) any conversion of RECEIVABLES which are not included as an ELIGIBLE RECEIVABLE in the most recent Borrowing Base Certificate delivered to the LENDER under Section 5.12.2 into an INSTRUMENT in contemplation of facilitating the collection thereof, (d) investments in the form of Acquisitions permitted pursuant to Section 6.8; and (e) loans and advances to employees and officers of the BORROWERS for travel and moving expenses in the ordinary course of business.

Section 6.8. No Acquisition Of Equity In Or Assets Of Third Persons. Neither BORROWER shall acquire any equity interests in, or all or any material portion of the assets of, any PERSON or division or department of any PERSON (an "Acquisition"); provided, however, either or both of the BORROWERS may complete an Acquisition in which all of the following conditions are satisfied: (a) the Acquisition is funded entirely with available cash balances of the BORROWERS (and not with borrowings under the LOAN); (b) the business acquired as a result of such Acquisition ("Target") is in the same principal lines of business as the BORROWERS; (c) the Target is located in the United States of America; (d) as evidenced by financial statements delivered to the LENDER, the Target's EBITDA for the twelve (12) month period ending on the last day of the most recent financial statements of the Target (which statements shall not be more than sixty (60) days prior to the date of the Acquisition) is positive; (e) the LENDER is provided with copies of all documents executed in connection with the Acquisition; (f) there are no DEFAULTS or EVENTS OF DEFAULT at the time of the Acquisition nor shall the Acquisition result in a DEFAULT or EVENT OF DEFAULT; (g) the assets of the Target will not be subject to any security interests or liens following the Acquisition other than PERMITTED LIENS; (h) the Target will not be obligated on any loans or other INDEBTEDNESS other than the OBLIGATIONS; (i) the LENDER shall be granted a first priority perfected lien (subject to PERMITTED LIENS) in all of the assets of the Target as security for the OBLIGATIONS; and (j) if the Target is a separate legal entity, the Target shall guarantee the OBLIGATIONS for the benefit of the LENDER pursuant to terms acceptable to the LENDER.

Section 6.9. Capital Expenditures. The BORROWERS shall not make UNFUNDED CAPITAL EXPENDITURES in excess of Three Million Dollars ($3,000,000.00) in the aggregate in any

FISCAL YEAR.

Section 6.10. No Alteration Of Structure Or Operations. No BORROWER shall amend or change materially its capital structure or its line or scope of business, nor shall it engage in material business ventures other than those in which it is presently engaged.

Section 6.11. Unpermitted Uses Of Loan Proceeds. No BORROWER shall use any part of the proceeds of the LOAN hereunder for: (a) any purpose which constitutes a violation of, or is inconsistent with, regulations of the Board of Governors of the Federal Reserve System, including without limitation, the purchase or carrying of (or refinancing of indebtedness originally incurred to purchase or carry) margin securities; or (b) making any payments required to be made under the TAX SHARING AGREEMENT.

Section 6.12. Changes In Fiscal Year. No BORROWER shall change its FISCAL YEAR, provided that with prior written notice to the LENDER the BORROWERS may change their FISCAL YEAR once to have it end on September 30th of each year.

Section 6.13. Limitation On Issuance Of Equity Interests. No BORROWER shall issue or sell any equity interest in such BORROWER that, by its terms or by the terms of any security into which it is convertible or exchangeable, is, or upon the happening of an event or passage of time would be: (a) convertible or exchangeable into a liability of such BORROWER; or (b) required to be redeemed or repurchased, including at the option of the holder, in whole or in part, or has, or upon the happening of an event or passage of time would have, a redemption or similar payment due.

Section 6.14. Amendment Of Certificate Of Incorporation. Neither Faneuil, Inc. or ALJ HOLDINGS shall amend its Certificate of Incorporation to include a provision similar to that permitted by paragraph (2) of Section 102(b) of the Delaware General Corporation Law.

Section 6.15. Limitations on Dividends and Other Payment Restrictions Affecting Subsidiaries. No BORROWER shall create or otherwise cause, incur, assume, suffer or permit to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any SUBSIDIARY of any LOAN PARTY (i) to pay dividends or to make any other distribution on any shares of CAPITAL STOCK of such SUBSIDIARY owned by any LOAN PARTY or any of its SUBSIDIARIES, (ii) to pay or prepay or to subordinate any INDEBTEDNESS owed to any LOAN PARTY or any of its SUBSIDIARIES, (iii) to make loans or advances to any LOAN PARTY or any of its SUBSIDIARIES or (iv) to transfer any of its property or assets to any LOAN PARTY or any of its SUBSIDIARIES, or permit any of its SUBSIDIARIES to do any of the foregoing; provided, however, that nothing in any of clauses (i) through (iv) of this Section shall prohibit or restrict compliance with:

(A) this AGREEMENT and the other LOAN DOCUMENTS;

(B) any agreements in effect on the date of this AGREEMENT and described on Schedule 6.15 attached hereto;

(C) any applicable LAW (including applicable currency control laws and applicable state corporate statutes restricting the payment of dividends in certain circumstances);

(D) in the case of clause (iv), any agreement setting forth customary restrictions on the subletting, assignment or transfer of any property or asset that is leased or licensed; or

(E) in the case of clause (iv), any agreement, instrument or other document evidencing a PERMITTED LIEN that restricts, on customary terms, the transfer of, or LIEN upon, any property or assets subject thereto.

Section 6.16. Modifications of Indebtedness, Organizational Documents and Certain Other Agreements; Etc. No BORROWER shall (i) amend, modify or otherwise change (or permit the amendment, modification or other change in any manner of) any of the provisions of any of its or its SUBSIDIARIES' INDEBTEDNESS (other than the OBLIGATIONS) or of any instrument or agreement (including any purchase agreement, indenture, loan agreement or security agreement) relating to any such INDEBTEDNESS if such amendment, modification or change would shorten the final maturity or average life to maturity of, or require any payment to be made earlier than the date originally scheduled on, such INDEBTEDNESS, would increase the interest rate applicable to such INDEBTEDNESS, would change the subordination provisions, if any, of such INDEBTEDNESS, or would otherwise be materially adverse to LENDER or the issuer of such INDEBTEDNESS in any respect, (ii) except for the OBLIGATIONS and except as permitted pursuant to Section 6.5, make any voluntary or optional payment, prepayment, redemption, defeasance, sinking fund payment or other acquisition for value of any of its or its SUBSIDIARIES' INDEBTEDNESS (including by way of depositing money or securities with the trustee therefor before the date required for the purpose of paying any portion of such INDEBTEDNESS when due), or refund, refinance, replace or exchange any other INDEBTEDNESS for any such INDEBTEDNESS (except to the extent such INDEBTEDNESS is otherwise expressly permitted by the definition of "PERMITTED INDEBTEDNESS"), or make any payment, prepayment, redemption, defeasance, sinking fund payment or repurchase of any outstanding INDEBTEDNESS (other than any INDEBTEDNESS secured by any PERMITTED LIEN on any asset (other than INDEBTEDNESS assumed by the purchaser of such asset) which is required to be, and is, repaid in connection with such disposition) as a result of any asset sale, change of control, issuance and sale of debt or equity securities or similar event, or give any notice with respect to any of the foregoing, (iii) except for technical changes and changes that are purely advantageous to BORROWERS, amend, modify or otherwise change its certificate of incorporation or bylaws (or other similar organizational or formation documents), including by the filing or modification of any certificate of designation, or any agreement or arrangement entered into by it, with respect to any of its CAPITAL STOCK (including any shareholders' agreement), or enter into any new agreement with respect to any of its CAPITAL STOCK that is materially adverse to LENDER, or (iv) except for technical changes and changes that are purely advantageous to BORROWERS, amend, modify or otherwise change (or permit the amendment, modification or other change in any manner of) any of the provisions of the TAX SHARING AGREEMENT, the VOTING AND INVESTOR RIGHTS AGREEMENT or the SEPARATION AGREEMENT.

Section 6.17. Certain Agreements. No BORROWER shall agree to any amendment or other change to or waiver of any of its rights under any MATERIAL CONTRACT, in each case that could reasonably be expected to be a MATERIAL ADVERSE EVENT.

## ARTICLE 7.
## EVENTS OF DEFAULT

The occurrence of any of the following events shall constitute an EVENT OF DEFAULT.

Section 7.1. Failure To Pay. The failure by the BORROWERS (a) to pay any principal when due and payable or (b) to pay any interest or any of the other OBLIGATIONS within three (3) BUSINESS DAYS after such OBLIGATIONS are due and payable.

Section 7.2. Violation Of Covenants. The failure by either BORROWER or SUBSIDIARY (a) to perform or a violation of any of the covenants or agreements provided in Sections 5.4, 5.5, 5.10,

5.12.1, 5.12.2, 5.12.3, 5.12.4, 5.12.6, 5.17, 5.18, 5.19 or Article VI of this AGREEMENT or (b) to perform or a violation of any of the other covenants or agreements contained in any section of this AGREEMENT (other than those set forth in clause (a) above or any other Section of this Article VII) or in any of the other LOAN DOCUMENTS and such default shall have continued unremedied, uncured or unwaived for a period of fifteen (15) BUSINESS DAYS after the earlier of (i) a RESPONSIBLE OFFICER obtains, or could reasonably be expect to have obtained, knowledge of the occurrence of such default and (ii) receipt by the BORROWERS of written notice from the LENDER of such default.

Section 7.3. Representation Or Warranty. The failure of any representation or warranty made by a BORROWER to be true in any material respect, as of the date made.

Section 7.4. Judgments. A LOAN PARTY or any SUBSIDIARY shall suffer final judgments for the payment of money aggregating in excess of One Hundred Thousand Dollars ($100,000.00) and shall not discharge the same within a period of thirty (30) days unless, pending further proceedings, execution has not been commenced or if commenced has been effectively stayed.

Section 7.5. Levy By Judgment Creditor. A judgment creditor of a LOAN PARTY shall obtain possession of any portion of the COLLATERAL by any means, including but not limited to levy, distraint, replevin or self-help, and the LOAN PARTIES shall not remedy same within thirty (30) days thereof; or a writ of garnishment is served on the LENDER relating to any of the DEPOSIT ACCOUNTS of a BORROWER maintained by the LENDER.

Section 7.6. Cross Default; Failure To Pay Liabilities. A BORROWER shall fail to pay any of its debts, in an aggregate amount in excess of Three Hundred Thousand Dollars ($300,000.00), due the LENDER or any other PERSON and such failure shall continue beyond any applicable grace period, or any default under any agreement or instrument relating to such debt or any other event shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such debt; or any such debt shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled required prepayment), redeemed, purchased, or defeased or an offer to prepay, redeem, purchase or defease such debt shall be required to be made, in each case, prior to the stated maturity thereto.

Section 7.7. Involuntary Insolvency Proceedings. The institution of involuntary INSOLVENCY PROCEEDINGS against a LOAN PARTY and the failure of any such INSOLVENCY PROCEEDINGS to be dismissed before the earliest to occur of: (a) the date which is ninety (90) days after the institution of such INSOLVENCY PROCEEDINGS; (b) the entry of any order for relief in the INSOLVENCY PROCEEDING or any order adjudicating a LOAN PARTY insolvent; or (c) the impairment (as to validity, priority or otherwise) under such INSOLVENCY PROCEEDING of any security interest or LIEN of the LENDER in any of the COLLATERAL.

Section 7.8. Voluntary Insolvency Proceedings. The commencement by a LOAN PARTY of INSOLVENCY PROCEEDINGS.

Section 7.9. Material Adverse Event. The occurrence of a MATERIAL ADVERSE EVENT.

Section 7.10. ERISA. If any TERMINATION EVENT shall occur and as of the date thereof or any subsequent date, the sum of the various liabilities of a BORROWER and its ERISA AFFILIATES (such liabilities to include, without limitation, any liability to the Pension Benefit Guaranty Corporation (or any successor thereto) or to any other party under Sections 4062, 4063, or 4064 of ERISA or any other provision of LAW and to be calculated after giving effect to the tax consequences thereof) resulting from or otherwise associated with such TERMINATION EVENT exceeds One Hundred Thousand Dollars

($100,000.00); or a BORROWER or any of its ERISA AFFILIATES as an employer under any MULTIEMPLOYER PLAN shall have made a complete or partial withdrawal from such MULTIEMPLOYER PLANS and the plan sponsors of such MULTIEMPLOYER PLANS shall have notified such withdrawing employer that such employer has incurred a withdrawal liability requiring a payment in an amount exceeding One Hundred Thousand Dollars ($100,000.00).

Section 7.11. Change of Control. The occurrence of a CHANGE OF CONTROL in a BORROWER.

Section 7.12. Indictment Of Borrower. The indictment of a BORROWER for a felony under any federal, state or other LAW.

Section 7.13. Injunction. The issuance of any injunction against a BORROWER which enjoins or restrains a BORROWER from continuing to conduct any material part of the BORROWERS' business affairs, unless such injunction could not reasonably be expected to have a materially adverse effect on BORROWERS' business or operations.

## ARTICLE 8.
## RIGHTS AND REMEDIES ON THE OCCURRENCE AND DURING THE CONTINUANCE OF AN EVENT OF DEFAULT

Section 8.1. Lender's Specific Rights And Remedies. In addition to all other rights and remedies provided by LAW and the LOAN DOCUMENTS, upon the occurrence and during the continuance of any EVENT OF DEFAULT, the LENDER may: (a) accelerate and call immediately due and payable all or any part of the OBLIGATIONS; (b) seek specific performance or injunctive relief to enforce performance of the undertakings, duties, and agreements provided in the LOAN DOCUMENTS, whether or not a remedy at law exists or is adequate; and (c) exercise any rights of a secured creditor under the UCC, including the right to take possession of the COLLATERAL without the use of judicial process or hearing of any kind and the right to require the BORROWER to assemble the COLLATERAL at such place as the LENDER may specify.

Section 8.2. Automatic Acceleration. Upon the occurrence and during the continuance of an EVENT OF DEFAULT as described in Sections 7.7 or 7.8 of this AGREEMENT, the OBLIGATIONS shall be automatically accelerated and due and payable without any notice, demand or action of any type on the part of the LENDER.

Section 8.3. Sale Of Collateral. In addition to any other remedy provided herein, upon the occurrence during the continuance of an EVENT OF DEFAULT, the LENDER, in a commercially reasonable fashion, may sell at public or private sale or otherwise realize upon, the whole or, from time to time, any part of all COLLATERAL which is personal property, or any interest which the BORROWERS may have therein. Pending any such action, the LENDER may collect and liquidate the COLLATERAL. After deducting from the proceeds of sale or other disposition of such COLLATERAL all expenses, including all expenses for legal services, the LENDER shall apply such proceeds toward the satisfaction of the OBLIGATIONS. Any remainder of the proceeds after satisfaction in full of the OBLIGATIONS shall be distributed as required by applicable LAW. Notice of any sale or other disposition (other than sales or other dispositions of COLLATERAL which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market) shall be given to the BORROWERS not less than ten (10) calendar days before the time of any intended public sale or of the time after which any intended private sale or other disposition of the COLLATERAL is to be made, which the BORROWERS hereby agree shall be commercially reasonable notice of such sale or other disposition. The BORROWERS shall assemble, or shall cause to be assembled, at the BORROWERS' own expense, the COLLATERAL at

such place or places as the LENDER shall designate. At any such sale or other disposition, the LENDER may, to the extent permissible under applicable law, purchase the whole or any part of the COLLATERAL, free from any right of redemption on the part of the BORROWERS, which right is hereby waived and released to the extent lawfully permitted. Without limiting the generality of any of the rights and remedies conferred upon the LENDER under this Section, the LENDER may, upon the occurrence and during the continuance of any EVENT OF DEFAULT, to the full extent permitted by applicable law: (a) enter upon the premises of the BORROWERS, exclude therefrom the BORROWERS or any PERSON connected therewith, and take immediate possession of the COLLATERAL, either personally or by means of a receiver appointed by a court of competent jurisdiction, using all necessary force to do so; (b) at the LENDER'S option, use, operate, manage, and control the COLLATERAL in any lawful manner; (c) collect and receive all income, revenue, earnings, issues, and profits therefrom; and (d) maintain, alter or remove the COLLATERAL as the LENDER may determine in the LENDER'S discretion.

Section 8.4. Letters Of Credit. Upon the request of the LENDER, at any time after the occurrence and during the continuance of an EVENT OF DEFAULT, the BORROWERS shall immediately deposit in a cash collateral account at the LENDER, over which the LENDER has sole access, an amount equal to the aggregate then undrawn and unexpired amount of all LETTERS OF CREDIT. Amounts held in such cash collateral account shall be applied by the LENDER to the payment of drafts drawn under LETTERS OF CREDIT, and the unused portion thereof after all LETTERS OF CREDIT shall have expired or been fully drawn upon shall be applied to repay the other OBLIGATIONS. After all LETTERS OF CREDIT shall have expired or have been fully drawn upon and all other OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the BORROWERS. In the event the BORROWERS fail to deposit into the cash collateral account an amount equal to the then undrawn and unexpired amount of all LETTERS OF CREDIT, the LENDER shall be authorized to deposit into such cash collateral account proceeds from the liquidation of the COLLATERAL until the balance in such account equals the aggregate then undrawn and unexpired amount of all LETTERS OF CREDIT.

Section 8.5. Specific Rights Regarding Collateral. In addition to all other rights and remedies provided hereunder or as shall exist at law or in equity from time to time, the LENDER may (but shall be under no obligation to), upon the occurrence and during the continuance of an EVENT OF DEFAULT, without notice to the BORROWERS, and the BORROWERS hereby irrevocably appoint the LENDER as its attorney in fact, with power of substitution, in the name of the LENDER or in the name of each BORROWER or otherwise, for the use and benefit of the LENDER, but at the cost and expense of the BORROWERS and without notice to the BORROWERS:

Section 8.5.1. request any ACCOUNT DEBTOR obligated on any of the ACCOUNTS to make payments thereon directly to the LENDER, with the LENDER taking control of the cash and non-cash proceeds thereof;

Section 8.5.2. compromise, extend or renew any of the COLLATERAL or deal with the same as it may deem advisable;

Section 8.5.3. make exchanges, substitutions or surrenders of all or any part of the COLLATERAL;

Section 8.5.4. copy, transcribe, or remove from any place of business of the BORROWERS all books, records, ledger sheets, correspondence, invoices and documents, relating to or evidencing any of the COLLATERAL or without cost or expense to the LENDER, make such use of each BORROWER'S place(s) of business as may be reasonably necessary to administer, control and collect the

COLLATERAL;

Section 8.5.5. repair, alter or supply goods if necessary to fulfill in whole or in part the purchase order of any ACCOUNT DEBTOR;

Section 8.5.6. demand, collect, receipt for and give renewals, extensions, discharges and releases of any of the COLLATERAL;

Section 8.5.7. institute and prosecute legal and equitable proceedings to enforce collection of, or realize upon, any of the COLLATERAL;

Section 8.5.8. settle, renew, extend, compromise, compound, exchange or adjust claims in respect of any of the COLLATERAL or any legal proceedings brought in respect thereof;

Section 8.5.9. endorse or sign the name of either BORROWER upon any items of payment, certificates of title, instruments, securities, stock powers, documents, documents of title, assignments, notices, or other writing relating to or part of the COLLATERAL and on any proof of claim in bankruptcy against an ACCOUNT DEBTOR;

Section 8.5.10. notify the post office authorities to change the address for the delivery of mail to the BORROWERS to such address or post office box as the LENDER may designate and receive and open all mail addressed to the BORROWERS; and

Section 8.5.11. take any other action necessary or beneficial to realize upon or dispose of the COLLATERAL or to carry out the terms of this AGREEMENT.

Section 8.6. Certain Additional Actions Regarding Intellectual Property. If any EVENT OF DEFAULT shall have occurred and be continuing, then upon the written demand of the LENDER, each BORROWER shall execute and deliver to the LENDER an assignment or assignments in favor of the LENDER, its designee, or in blank, of such BORROWER'S rights in the INTELLECTUAL PROPERTY COLLATERAL, in recordable form with respect to those items of the INTELLECTUAL PROPERTY COLLATERAL consisting of registered or applied-for PATENTS, TRADEMARKS, COPYRIGHTS and/or OTHER PROPRIETARY RIGHTS, and such other documents as are necessary or appropriate to carry out the intent and purposes hereof.

Section 8.7. Rights Regarding Intellectual Property After Event Of Default. Upon the occurrence and during the continuance of any EVENT OF DEFAULT, the LENDER shall have the right, but shall in no way be obligated, to file applications for protection of the INTELLECTUAL PROPERTY COLLATERAL and/or bring suit in the name of either BORROWER or the LENDER to enforce the INTELLECTUAL PROPERTY COLLATERAL. In the event of such suit, each BORROWER shall, during the continuance of an EVENT OF DEFAULT, at the request of the LENDER, do any and all lawful acts, including joinder as a party, and execute any and all documents requested by the LENDER in aid of such enforcement, and the BORROWERS shall promptly reimburse and indemnify the LENDER for all costs and expenses incurred by the LENDER in the exercise of its rights under this section. In the event that the LENDER shall elect not to bring suit to enforce the INTELLECTUAL PROPERTY COLLATERAL, each BORROWER agrees, at the request of the LENDER, to take all actions necessary, whether by suit, proceeding or other action, to prevent and/or obtain a recovery for the infringement or other violation of rights in, diminution in value of, or other damage to any of the INTELLECTUAL PROPERTY COLLATERAL by any person.

Section 8.8. Grant Of Intellectual Property License. Solely for the purpose of enabling the LENDER to exercise rights and remedies hereunder upon the occurrence and during the continuance of

an EVENT OF DEFAULT and for no other purpose, each BORROWER hereby grants to the LENDER a non-exclusive license and, to the extent permitted under INTELLECTUAL PROPERTY LICENSES granting such BORROWER rights in INTELLECTUAL PROPERTY, sublicense (in each case, exercisable without payment of royalties or other compensation to such BORROWER) to use or otherwise exploit, with rights of sublicense, any of the INTELLECTUAL PROPERTY COLLATERAL now or hereafter owned by or licensed to such BORROWER, wherever the same may be located; provided that: (a) such license shall be subject to the rights of any licensee under any exclusive license granted prior to such EVENT OF DEFAULT, to the extent such license is a PERMITTED LIEN; (b) such license shall be irrevocable during the continuance of an EVENT OF DEFAULT; (c) the quality of any services or products in connection with which any TRADEMARKS included in the COLLATERAL are used will not be materially inferior to the quality of such services and products sold by such BORROWER under such TRADEMARKS immediately prior to such EVENT OF DEFAULT and such BORROWER shall have the right to inspect any such services and products to monitor compliance with such standard; and (d) to the extent the foregoing license is a sublicense of such BORROWER'S rights as licensee under any third party license, the license to LENDER shall be in accordance with any limitations in such third party license including prohibitions on further sublicensing. Consistent with the foregoing provisos, the license shall include access to all media in which any of the licensed items may be recorded or stored and to all computer programs used for the compilation or printout hereof.

Section 8.9. Remedies Cumulative. The rights and remedies provided in this AGREEMENT and in the other LOAN DOCUMENTS or otherwise under applicable LAWS shall be cumulative and the exercise of any particular right or remedy shall not preclude the exercise of any other rights or remedies in addition to, or as an alternative of, such right or remedy.

## ARTICLE 9.
## GENERAL CONDITIONS AND TERMS

Section 9.1. Obligations Are Unconditional. The payment and performance of the OBLIGATIONS shall be the absolute and unconditional duty and obligation of the BORROWERS, and shall be independent of any defense or any rights of set-off, recoupment or counterclaim which the BORROWERS might otherwise have against the LENDER. The BORROWERS shall pay the payments of the principal and interest to be made upon the OBLIGATIONS, free of any deductions and without abatement, diminution or set-off other than those herein expressly provided. Until such time as the OBLIGATIONS (other than contingent indemnification obligations) have been fully paid and performed, the BORROWERS shall not: (a) suspend or discontinue any payments required by the LOAN DOCUMENTS; and (b) fail to perform and observe all of the BORROWERS' covenants and agreements set forth in the LOAN DOCUMENTS.

Section 9.2. Indemnification. Each BORROWER agrees to indemnify and hold harmless, the LENDER, the LENDER'S AFFILIATES and the LENDER'S AFFILIATES officers, directors, shareholders, employees and agents (each an "Indemnified Party", and collectively, the "Indemnified Parties"), from and against any and all claims, liabilities, losses, damages, costs and expenses (whether or not such Indemnified Party is a party to any litigation), including without limitation, reasonable attorney's fees and costs and costs of investigation, document production, attendance at depositions or other discovery, incurred by any Indemnified Party with respect to, arising out of or as a consequence of (a) this AGREEMENT or any of the other LOAN DOCUMENTS, including without limitation, any failure of the BORROWERS to pay when due (at maturity, by acceleration or otherwise) any principal, interest, fee or any other amount due under this AGREEMENT or the other LOAN DOCUMENTS, or any other EVENT OF DEFAULT (b) the use by a BORROWER of any proceeds advanced hereunder; (c) the transactions contemplated hereunder; or (d) any claim, demand, action or cause of action being asserted against (i) either BORROWER or any of its affiliates by any other PERSON, or (ii) any Indemnified Party by a BORROWER in connection with the transactions contemplated hereunder. Notwithstanding

anything herein or elsewhere to the contrary, the BORROWERS shall not be obligated to indemnify or hold harmless any Indemnified Party from any liability, loss or damage resulting from the gross negligence, willful misconduct or unlawful actions of such Indemnified Party. Any amount payable to the LENDER under this Section will bear interest at the default rate of interest set forth in the NOTE from the due date until paid.

Section 9.3. NO ORAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 9.4. Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any assignment and assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable LAW, including the Federal Electronic Signatures in Global and National Commerce Act, or any other similar state LAWS based on the Uniform Electronic Transactions Act.

Section 9.5. Power of Attorney. In addition to all of the powers granted to the LENDER in this AGREEMENT, each BORROWER hereby appoints and constitutes the LENDER as the BORROWER'S attorney-in-fact to request, at any time there exists a reasonable basis for the LENDER to believe that a DEFAULT or EVENT OF DEFAULT has occurred and is continuing, from customers indebted on its RECEIVABLES verification of information concerning such RECEIVABLES and the amount owing thereon (provided that any verification prior to an EVENT OF DEFAULT shall not contain the LENDER'S name), and, upon the occurrence and during the continuance of an EVENT OF DEFAULT, (i) to convey any item of COLLATERAL to any purchaser thereof and (ii) to make any payment or take any act necessary or desirable to protect or preserve any COLLATERAL. The LENDER'S authority hereunder shall include, without limitation, the authority to execute and give receipt for any certificate of ownership or any document, to transfer title to any item of COLLATERAL and to take any other actions arising from or incident to the powers granted to the LENDER under this AGREEMENT. This power of attorney is coupled with an interest and is irrevocable.

Section 9.6. Lender Expenses. All LENDER EXPENSES shall be paid by the BORROWERS, whether incurred prior to or after CLOSING.

Section 9.7. Incorporation; Construction Of Inconsistent Provisions. In the event of any inconsistency between this AGREEMENT and any other LOAN DOCUMENT, the terms of this AGREEMENT shall govern.

Section 9.8. Waivers. The LENDER at any time or from time to time may waive all or any rights under this AGREEMENT or any other LOAN DOCUMENT, but any waiver or indulgence by the LENDER at any time or from time to time shall not constitute a future waiver of performance or exact performance by the BORROWERS.

Section 9.9. Continuing Obligation Of Borrower; Termination. The terms, conditions, and covenants set forth herein and in the LOAN DOCUMENTS shall survive CLOSING and shall constitute a continuing obligation of the BORROWERS. The security interests, LIENS and other security provided by this AGREEMENT shall remain in effect so long as any OBLIGATION (other than contingent indemnification obligations), whether direct or contingent, is outstanding, unpaid or unsatisfied. Notwithstanding anything to the contrary in any LOAN DOCUMENT, upon payment in full in cash of

the OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS), the receipt by the LENDER of BORROWERS' written notice to terminate the LENDER'S commitment to make any advance under the REVOLVING LOAN (and no BORROWER shall make any subsequent request for any such advance) and the expiration of all LETTERS OF CREDIT, this AGREEMENT and the LENDER'S LIENS in the COLLATERAL shall terminate and the LENDER shall, at the cost and expense of the BORROWERS, make such filings and take such other actions as either BORROWER may reasonable request in order to evidence such termination and release.

Section 9.10. Choice Of Law. The laws of the Commonwealth of Virginia (excluding, however, conflict of law principles) shall govern and be applied to determine all issues relating to this AGREEMENT and the rights and obligations of the parties hereto, including the validity, construction, interpretation, and enforceability of this AGREEMENT and its various provisions and the consequences and legal effect of all transactions and events which resulted in the execution of this AGREEMENT or which occurred or were to occur as a direct or indirect result of this AGREEMENT having been executed.

Section 9.11. Submission To Jurisdiction; Venue; Actions Against Lender. For purposes of any action, in law or in equity, which is based directly or indirectly on this AGREEMENT, any other LOAN DOCUMENT or any matter related to this AGREEMENT or any other LOAN DOCUMENT, including any action for recognition or enforcement of any of the LENDER'S rights under the LOAN DOCUMENTS or any judgment obtained by the LENDER in respect thereof, the BORROWERS hereby:

Section 9.11.1. Jurisdiction. Irrevocably submits to the non-exclusive general jurisdiction of the courts of the Commonwealth of Virginia and, if a basis for federal jurisdiction exists at any time, the courts of the United States of America for the District of Virginia.

Section 9.11.2. Venue. Agrees that venue shall be proper in the Circuit Court for any county in the Commonwealth of Virginia, as selected by the LENDER, and, if a basis for federal jurisdiction exists, the courts of the United States of America for the District of Virginia.

Section 9.11.3. Waiver Of Objections To Venue. Waives any right to object to the maintenance of any suit in any of the courts specified in Section 9.11.2 above on the basis of improper venue or convenience of forum. The BORROWERS further agree that they shall not institute any suit or other action against the LENDER, in law or in equity, which is based directly or indirectly on this AGREEMENT, any other LOAN DOCUMENT or any matter related to this AGREEMENT or any other LOAN DOCUMENT, in any court other than a court specified in Section 9.11.2 above; provided, that in any instance in which there is then pending a suit instituted by the LENDER against the BORROWERS in a court other than a court specified in Section 9.11.2 above, the BORROWERS may file in such suit any counterclaim which it has against the LENDER but only if such counterclaim is a compulsory counterclaim and would be barred if not filed as a counterclaim in such suit. The BORROWERS agree that any suit brought by it against the LENDER not in accordance with this paragraph should be forthwith dismissed or transferred to a court specified in Section 9.11.2 above.

Section 9.12. Notices. Any notice required or permitted by or in connection with this AGREEMENT shall be in writing and shall be made by facsimile (confirmed on the date the facsimile is sent by one of the other methods of giving notice provided for in this Section) or by hand delivery, by Federal Express, or other similar overnight delivery service, or by certified mail, unrestricted delivery, return receipt requested, postage prepaid, addressed to the LENDER or the BORROWERS at the appropriate address set forth below or to such other address as may be hereafter specified by written notice by the LENDER or the BORROWERS. Notice shall be considered given as of the date of the facsimile or the hand delivery, one (1) calendar day after delivery to Federal Express or similar overnight delivery service, or three (3) calendar days after the date of mailing, independent of the date of actual delivery or whether delivery is ever in fact made, as the case may be, provided the giver of notice can

establish the fact that notice was given as provided herein. If notice is tendered pursuant to the provisions of this Section and is refused by the intended recipient thereof, the notice, nevertheless, shall be considered to have been given and shall be effective as of the date herein provided.

If to the LENDER:

M&T BANK
7799 Leesburg Pike, North Tower, Suite 900
Falls Church, Virginia 22043
Attn: R. Mark Swaak, Vice President
Fax No.: (703) 448-3190

If to the BORROWERS:

FANEUIL, INC.
FANEUIL TOLL OPERATIONS LLC
2 Eaton Street, Suite 1002
Hampton, Virginia 23669
Attn: Chief Executive Officer
Fax No.: _____

and to:

Robert Christ
PO Box 99418
San Diego, CA 92169
Fax No.: (301) 529-3160
Email: t.robert.christ@gmail.com

and to:

Christopher M. Forrester
Shearman & Sterling LLP
Five Palo Alto Square, 6th Floor
3000 El Camino Real
Palo Alto, California 94306-2155
Email: Christopher.Forrester@Shearman.com

Section 9.13. Participations. The LENDER reserves the right to assign all or any portion of its interests in any of the OBLIGATIONS or the LOAN DOCUMENTS or to participate with other lending institutions any of the OBLIGATIONS and the LOAN DOCUMENTS on such terms and at such times as the LENDER may determine from time to time; provided that, unless an EVENT OF DEFAULT shall have occurred, the LENDER shall not make any such assignment without the prior written consent of the BORROWERS (such consent not to be unreasonably withheld, conditioned or delayed).

Section 9.14. Miscellaneous Provisions. The parties agree that: (a) this AGREEMENT shall be effective as of the date first above written, independent of the date of execution or delivery hereof; (b) this AGREEMENT shall be binding upon the parties and their successors and assigns, contains the final and entire agreement and understanding of the parties, and may neither be amended or altered except by a writing signed by the parties; (c) time is strictly of the essence of this AGREEMENT; (d) as used herein, the singular includes the plural and the plural includes the singular, the use of any gender applies to all genders; (e) the captions contained herein are for purposes of convenience only and are not a part of this AGREEMENT; (f) a carbon, photographic, photocopy or other reproduction of a security agreement or financing statement shall be sufficient as a financing statement; (g) this AGREEMENT may be delivered by facsimile, and a facsimile of any party's signature to this AGREEMENT shall be deemed an original signature for all purposes; and (h) this AGREEMENT may be executed in several counterparts, each of which shall be an original, but all of which, when taken together, shall constitute one and the same document.

Section 9.15. Waiver Of Trial By Jury. Each party to this AGREEMENT agrees that any suit, action, or proceeding, whether claim or counterclaim, brought or instituted by either party hereto or any successor or assign of any party on or with respect to this AGREEMENT or any other LOAN DOCUMENT or which in any way relates, directly or indirectly, to the OBLIGATIONS or any event, transaction, or occurrence arising out of or in any way connected with any of the OBLIGATIONS, or the dealings of the parties with respect thereto, shall be tried only by a court and not by a jury. **EACH PARTY HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION, OR PROCEEDING.**

[Signatures Contained on Next Page]

IN WITNESS WHEREOF, the LENDER and the BORROWERS have duly executed this Loan And Security Agreement under seal as of the date first above written.

WITNESS/ATTEST:

**LENDER:**

**M&T BANK**

MGreene

By: _____(SEAL)
Name: R. Mark Swaab
Title: Vice President

**BORROWERS:**

**FANEUIL, INC.**, A Delaware Corporation

_____

By: _____(SEAL)
Name: _____
Title: _____

**FANEUIL TOLL OPERATIONS LLC,**
A Delaware Limited Liability Company

By: Faneuil, Inc., A Delaware Corporation,
its Sole Member

_____

By: _____(SEAL)
Name: _____
Title: _____

IN WITNESS WHEREOF, the LENDER and the BORROWERS have duly executed this Loan And Security Agreement under seal as of the date first above written.

WITNESS/ATTEST:

**LENDER:**

**M&T BANK**

_____

By: _____(SEAL)
Name: _____
Title: _____

**BORROWERS:**

**FANEUIL, INC.**, A Delaware Corporation

Karen Z Norris

By: Anna Van Buren (SEAL)
Name: ANNA VAN BUREN
Title: PRESIDENT & CEO

FANEUIL INC CORPORATE SEAL 1993 DELAWARE

**FANEUIL TOLL OPERATIONS LLC,**
A Delaware Limited Liability Company

By: Faneuil, Inc., A Delaware Corporation,
its Sole Member

Karen Z. Norris

By: Anna Van Buren (SEAL)
Name: ANNA VAN BUREN
Title: PRESIDENT & CEO

FANEUIL INC CORPORATE SEAL 1993 DELAWARE

**EXHIBIT NO. 10**

# LOAN AND SECURITY AGREEMENT

Between

**ALJ REGIONAL HOLDINGS, INC.**
A Delaware Corporation

"BORROWER"

And

**M&T BANK,**
A New York Banking Corporation

"LENDER"

**$2,000,000.00 TERM LOAN**

Dated: September 30, 2014

# LOAN AND SECURITY AGREEMENT

**THIS LOAN AND SECURITY AGREEMENT** is dated as of September 30, 2014 by and between **ALJ REGIONAL HOLDINGS, INC.,** a Delaware corporation ("BORROWER") and **M&T BANK** ("LENDER").

## RECITALS

The BORROWER has requested that the LENDER extend a term loan to the BORROWER. The LENDER is willing to provide the requested credit accommodation upon the terms and conditions of this Loan And Security Agreement, and upon the granting by the BORROWER to the LENDER of the security interests, liens, and other assurances of payment provided for in this Loan And Security Agreement.

**NOW, THEREFORE**, in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## ARTICLE 1.
## DEFINITIONS

As used in this Loan And Security Agreement, the terms set forth in this Article 1 have the meanings set forth below, unless the specific context of this Loan And Security Agreement clearly requires a different meaning. Terms defined in this Article 1 or elsewhere in this Loan And Security Agreement are in all capital letters throughout this Loan And Security Agreement. The singular use of any defined term includes the plural and the plural use includes the singular.

Section 1.1. Account Debtor. The term "ACCOUNT DEBTOR" means collectively each PERSON: (a) to or for whom the BORROWER has provided or has agreed to provide any goods or services; or (b) which owes the BORROWER any sum of money as a result of goods sold or services provided by the BORROWER; or (c) which is the maker or endorser on any INSTRUMENT payable to the BORROWER or otherwise owes the BORROWER any sum of money on account of any loan or other payment obligation. With respect to each RECEIVABLE which is payable by any GOVERNMENTAL AUTHORITY, "ACCOUNT DEBTOR" includes, without limitation, the agency, instrumentality or official which has the duty of remitting or causing the remittance of the amounts owing on such ACCOUNT or other RECEIVABLE.

Section 1.2. Account, As-Extracted Collateral, Chattel Paper, Deposit Account, Document, Equipment, Fixtures, General Intangibles, Goods, Instrument, Inventory, Investment Property, And Letter-Of-Credit Right. The terms "ACCOUNT," "AS-EXTRACTED COLLATERAL," "CHATTEL PAPER," "DEPOSIT ACCOUNT," "DOCUMENT," "EQUIPMENT," "FIXTURES," "GENERAL INTANGIBLES," "GOODS," "INSTRUMENT," "INVENTORY," "INVESTMENT PROPERTY," and "LETTER-OF-CREDIT RIGHT" shall have the same respective meanings as are given to those terms in the UCC.

Section 1.3. Affiliate. The term "AFFILIATE" means collectively any PERSON: (a) that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with the BORROWER, including, without limitation, the officers, managers and directors of the BORROWER; (b) that directly or beneficially owns or holds ten percent (10%) or more of any equity interests in the BORROWER; or (c) ten percent (10%) or more of whose equity interests

are owned directly or controlled by the BORROWER. As used herein, the term "control" (including, with correlative meanings, the terms "controlled by" and "under common control with") shall mean possession, directly or indirectly, of the power to direct the management or policies of a PERSON, whether through ownership of equity interests, by contract or otherwise.

Section 1.4. Agreement. The term "AGREEMENT" means this Loan And Security Agreement, as amended, extended, or modified from time to time by the parties hereto, as well as all schedules, exhibits and attachments hereto.

Section 1.5. Anti-Terrorism Order. The term "ANTI-TERRORISM ORDER" means the Executive Order 132264. 66 Fed. Reg. 49079 (September 25, 2001) (Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit or Support Terrorism) and any similar Presidential Executive Order.

Section 1.6. Bank Products. The term "BANK PRODUCTS" means any one or more of the following types of services or facilities extended to the BORROWER by the LENDER or an AFFILIATE of the LENDER: (a) Automated Clearing House (ACH) transactions and other similar money transfer services; (b) cash management, lockbox services and other similar services; (c) establishing and maintaining deposit accounts; (d) credit cards or stored value cards; and (e) other similar or related bank products and services.

Section 1.7. Business Day. The term "BUSINESS DAY" means any day other than a Saturday, Sunday or other day on which commercial banking institutions in the State of Maryland are required to be closed.

Section 1.8. Capital Adequacy Requirement. The term "CAPITAL ADEQUACY REQUIREMENT" means any LAW imposing any capital adequacy requirement or any other similar requirement (including but not limited to the capital adequacy regulations contained in Parts 3, 208 and 225 of Title 12 of the Code of Federal Regulations, as amended), any change in such LAWS or in the interpretation or application thereof, and any request or directive regarding capital adequacy (whether or not having the force of law) from any central bank or government authority.

Section 1.9. Capital Lease. The term "CAPITAL LEASE" means a lease with respect to which the lessee's obligations thereunder should, in accordance with G.A.A.P., be capitalized and reflected as a liability on the balance sheet of the lessee.

Section 1.10. Capital Lease Obligations. The term "CAPITAL LEASE OBLIGATIONS" means any indebtedness incurred as a lessee pursuant to a CAPITAL LEASE.

Section 1.11. Capital Stock. The term "CAPITAL STOCK" means (i) with respect to any PERSON that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, and (ii) with respect to any PERSON that is not a corporation, any and all partnership, membership or other equity interests of such Person.

Section 1.12. Change of Control. The term "CHANGE OF CONTROL" means with respect to a party, the occurrence of any of the following events: (a) any consolidation or merger of such party with or into any other entity in which the holders of such party's outstanding voting equity interests immediately before such consolidation or merger do not, immediately after such consolidation or merger, retain equity interests representing a majority of the voting power of the surviving entity or stock representing a majority of the voting power of an entity that wholly owns, directly or indirectly, the surviving entity; (b) the sale, transfer or assignment of securities of such party representing a majority of

the voting power of all of such party's outstanding voting securities to an acquiring party or group; or (c) the sale of all or substantially all of such party's assets.

Section 1.13. Charges. The term "CHARGES" means all federal, state, county, city, municipal, local, foreign or other governmental taxes, premiums and other amounts (including premiums and other amounts owed to the Pension Benefit Guaranty Corporation at the time due and payable), levies, assessments, charges, LIENS, claims or encumbrances upon or relating to (a) the COLLATERAL, (b) the OBLIGATIONS, (c) the employees, payroll, income or gross receipts of the BORROWER, (d) the BORROWER'S ownership or use of any properties or other assets, or (e) any other aspect of the BORROWER'S business.

Section 1.14. Closing. The term "CLOSING" means the execution and delivery of this AGREEMENT, the NOTE, and various other LOAN DOCUMENTS. The date of CLOSING is the date written above as the date of this AGREEMENT.

Section 1.15. Code. The term "CODE" means the Internal Revenue Code of 1986, as amended, and all Treasury regulations, revenue rulings, revenue procedures or announcements issued thereunder.

Section 1.16. Collateral. The term "COLLATERAL" means all of the tangible and intangible assets and personal property of the BORROWER, wherever located, whether now owned or hereafter acquired by the BORROWER, together with all substitutions therefore, and all replacements and renewals thereof, and all accessions, additions, replacement parts, manuals, warranties and packaging relating thereto, including but not limited to the following tangible and intangible assets and property rights of the BORROWER: (a) ACCOUNTS; (b) AS-EXTRACTED COLLATERAL; (c) CHATTEL PAPER; (d) DEPOSIT ACCOUNTS; (e) DOCUMENTS; (f) EQUIPMENT; (g) FIXTURES; (h) GENERAL INTANGIBLES; (i) GOODS; (j) INSTRUMENTS; (k) INVENTORY, including returned, rejected, or repossessed INVENTORY and rights of reclamation and stoppage in transit with respect to INVENTORY; (l) INVESTMENT PROPERTY; (m) LETTER-OF-CREDIT RIGHTS; (n) RECEIVABLES; (o) INTELLECTUAL PROPERTY; and (p) all RECORDS relating to or pertaining to any of the above listed COLLATERAL; provided that, notwithstanding the foregoing, the COLLATERAL shall not include any EXCLUDED PROPERTY.

Section 1.17. Collateral Account. The term "COLLATERAL ACCOUNT" means a bank account designated by the LENDER from which the LENDER alone has power of access and withdrawal.

Section 1.18. Commercial Account. The term "COMMERCIAL ACCOUNT" means the commercial checking account to be established and maintained by the BORROWER with the LENDER and which may be utilized as the means of advancing funds under the LOAN.

Section 1.19. Copyrights. The term "COPYRIGHTS" means, collectively, copyrights (whether statutory or common law, whether established, registered or recorded in the United States or any other country or any political subdivision thereof, and whether published or unpublished) and all mask works (as such term is defined in 17 U.S.C. Section 901, *et seq.*), together with any and all: (a) registrations and applications therefore; (b) rights and privileges arising under applicable law with respect to such copyrights; (c) renewals and extensions thereof; (d) income, fees, royalties, damages, claims and payments now or hereafter due and/or payable with respect thereto, including damages and payments for past, present or future infringements or other violations thereof; (e) rights to sue for past, present or future infringements thereof; and (f) rights corresponding thereto throughout the world.

Section 1.20. Default. The term "DEFAULT" means any event, occurrence or omission which, with the giving of notice, the passage of time, or both, would constitute an EVENT OF DEFAULT.

Section 1.21. Employee Benefit Plan. The term "EMPLOYEE BENEFIT PLAN" means an "employee benefit plan" as defined in Section 3(3) of ERISA.

Section 1.22. Environmental Laws. The term "ENVIRONMENTAL LAWS" means individually or collectively any local, state or federal LAW, statute, rule, regulation, order, ordinance, common law, permit or license term or condition, or state superlien or environmental clean-up or disclosure statutes pertaining to the environment or to environmental contamination, regulation, management, control, treatment, storage, disposal, containment, removal, clean-up, reporting, or disclosure, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as now or hereafter amended (including, but not limited to, the Superfund Amendments and Reauthorization Act); the Resource Conservation and Recovery Act, as now or hereafter amended (including, but not limited to, the Hazardous and Solid Waste Amendments of 1984); the Toxic Substances Control Act, as now or hereafter amended; the Clean Water Act, as now or hereafter amended; the Safe Drinking Water Act, as now or hereafter amended; or the Clean Air Act, as now or hereafter amended.

Section 1.23. EPA Permit. The term "EPA PERMIT" has the meaning given that term in Section 4.18 of this AGREEMENT.

Section 1.24. ERISA. The term "ERISA" means the Employee Retirement Income Security Act of 1974 and regulations issued thereunder, as amended from time to time and any successor statute.

Section 1.25. ERISA Affiliate. The term "ERISA AFFILIATE" means, in relation to any PERSON, any trade or business (whether or not incorporated) which is a member of a group of which that PERSON is a member and which is under common control within the meaning of the regulations promulgated under Section 414 of the CODE.

Section 1.26. ERISA Liabilities. The term "ERISA LIABILITIES" means the aggregate of all unfunded vested benefits under any employee pension benefit plan, within the meaning of Section 3(2) of ERISA, of the BORROWER or any ERISA AFFILIATE of the BORROWER under any plan covered by ERISA that is not a MULTIEMPLOYER PLAN and all potential withdrawal liabilities of the BORROWER or any ERISA AFFILIATE under all MULTIEMPLOYER PLANS.

Section 1.27. Event Of Default. The term "EVENT OF DEFAULT" means any of the events set forth in Article 7 of this AGREEMENT, provided that any requirement for the giving of notice, the lapse of time, or both, or any other expressly stated condition, has been satisfied.

Section 1.28. Excluded Property. The term "EXCLUDED PROPERTY" means (i) the portion of any equity interests in excess of 65% of the total combined voting power of all classes of equity interests entitled to vote (within the meaning of Section 1.956-2(c)(2) of the United States Treasury regulations) of any foreign SUBSIDIARY; (ii) any right, title or interest in any permit, license or any contractual obligation entered into by the BORROWER or any SUBSIDIARY, any directly held investment property (as defined in the UCC) or any general intangibles (as defined in the UCC) now or hereafter owned by the BORROWER or any SUBSIDIARY (A) that prohibits the creation by the BORROWER or SUBSIDIARY of a LIEN thereon or requires the consent of any PERSON other than the BORROWER and its AFFILIATES which consent has not been obtained as a condition to the creation of such LIEN or which would be breached or give any such PERSON the right to terminate it as a result of the creation of such LIEN, or (B) to the extent that any applicable LAWS prohibit the creation of a LIEN

thereon, but only, in each case, to the extent and for so long as, such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective under Section 9-406, 9-407, 9-408, or 9-409 of the UCC or under any other applicable LAW; (iii) any property now owned or hereafter acquired by the BORROWER or any SUBSIDIARY that is subject to a purchase money LIEN or a capitalized lease permitted under this AGREEMENT if the contractual obligation (or other documentation) pursuant to which such LIEN is granted prohibits the creation of a LIEN thereon or requires the consent of any PERSON other than the BORROWER or its AFFILIATES which consent has not been obtained as a condition to the creation of any other LIEN on such property, except to the extent that such term in such contractual obligation or documentation provision is ineffective under Section 9-406, 9-407, 9-408, or 9-409 of the UCC or under any other applicable LAW.

Section 1.29. Extraordinary Receipts. The term "EXTRAORDINARY RECEIPTS" means any cash received by the BORROWER or any of its SUBSIDIARIES (net of (a) all reasonable out-of-pocket fees, costs, and other expenses incurred by such PERSON in connection with the collection or recovery of such amount, and (b) a reasonable reserve on account of taxes payable with respect to such EXTRAORDINARY RECEIPT) not in the ordinary course of business (and not consisting of proceeds of INDEBTEDNESS), including: (i) pension plan reversions, (ii) proceeds of property insurance, which are not utilized by the BORROWER to repair or replace the asset damaged or destroyed that is the subject of such insurance proceeds within nine (9) months after receipt of such award, (iii) judgments, proceeds of settlements or other consideration of any kind in connection with any cause of action, (iv) condemnation awards (and payments in lieu thereof), which are not utilized by the BORROWER for the replacement of the asset which was condemned within nine (9) months after receipt of such award, (v) indemnity payments (after deducting therefrom the amount of liability giving rise to such indemnity), and (vi) any purchase price adjustment received in connection with any purchase agreement and any amounts received from escrow arrangements in connection with any purchase agreement; provided that, notwithstanding the foregoing, grants and proceeds from government economic development awards shall not constitute EXTRAORDINARY RECEIPTS.

Section 1.30. Facilities. The term "FACILITIES" means all real property and the improvements thereon used or occupied or leased by the BORROWER or otherwise used at any time by the BORROWER in the operation of its business or for the manufacture, storage, or location of any of the COLLATERAL.

Section 1.31. Fiscal Year. The term "FISCAL YEAR" means the fiscal year of the BORROWER which is the twelve (12) month accounting period commencing October 1st of each calendar year.

Section 1.32. G.A.A.P. The term "G.A.A.P." means, with respect to any date of determination, generally accepted accounting principles as used by the Financial Accounting Standards Board and/or the American Institute of Certified Public Accountants consistently applied and maintained throughout the periods indicated.

Section 1.33. Governmental Authority. The term "GOVERNMENTAL AUTHORITY" means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

Section 1.34. Guaranteed Pension Plan. The term "GUARANTEED PENSION PLAN" means any pension plan maintained by the BORROWER or an ERISA AFFILIATE of the BORROWER, or to

which the BORROWER or an ERISA AFFILIATE contributes, some or all of the benefits under which are guaranteed by the United States Pension Benefit Guaranty Corporation.

Section 1.35. Guarantor. The term "GUARANTOR" means Faneuil, Inc., a Delaware corporation.

Section 1.36. Guaranty Indebtedness. The term "GUARANTY INDEBTEDNESS" means any obligation, contingent or otherwise, of any referenced PERSON directly or indirectly guaranteeing any debt or obligation of any other PERSON and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such PERSON: (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such debt or obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, other than agreements to purchase goods at an arm's length price in the ordinary course of business); or (b) entered into for the purpose of assuring in any other manner the holder of such debt or obligation of the payment thereof or to protect such holder against loss in respect thereof (in whole or in part) The term GUARANTY INDEBTEDNESS shall not include endorsements for collection or deposit in the ordinary course of business.

Section 1.37. Indebtedness. The term "INDEBTEDNESS" means, as to any referenced PERSON (determined without duplication): (a) indebtedness of such PERSON for borrowed money (whether by loan or the issuance and sale of debt securities), or for the deferred purchase or acquisition price of property or services; (b) obligations of such PERSON in respect of letters of credit, banker's or other acceptances or similar instruments issued or accepted by financial institutions for the ACCOUNT of such PERSON (whether or not such obligations are contingent); (c) CAPITAL LEASE OBLIGATIONS of such PERSON; (d) SYNTHETIC LEASE OBLIGATIONS; (e) all liabilities secured by any LIEN on any property owned by such PERSON, to the extent attached to such PERSON'S interest in such property, even though such PERSON has not assumed or become personally liable for the payment thereof; and (f) any obligations, liabilities or indebtedness, contingent or otherwise, under or in connection with any INTEREST RATE HEDGE AGREEMENTS; but excluding trade and other accounts payable in the ordinary course of business in accordance with customary trade terms and that are not overdue (as determined in accordance with customary trade practices) or that are being disputed in good faith by such PERSON and for which adequate reserves are being provided on the books of such PERSON in accordance with G.A.A.P.

Section 1.38. Insolvency Proceedings. The term "INSOLVENCY PROCEEDINGS" means, with respect to any referenced PERSON, any case or proceeding commenced by or against such PERSON, under any provision of the United States Bankruptcy Code, as amended, or under any other federal or state bankruptcy or insolvency law, or any assignments for the benefit of creditors, formal or informal moratoriums, receiverships, compositions or extensions with some or all creditors with respect to any indebtedness of such PERSON.

Section 1.39. Intellectual Property. The term "INTELLECTUAL PROPERTY" means, collectively, PATENTS, TRADEMARKS, COPYRIGHTS, INTELLECTUAL PROPERTY LICENSES and OTHER PROPRIETARY RIGHTS.

Section 1.40. Intellectual Property Licenses. The term "INTELLECTUAL PROPERTY LICENSES" means, collectively, with respect to the BORROWER, all license agreements, distribution agreements and covenants not to sue (regardless of whether such agreements and covenants are contained within an agreement that also covers other matters, such as development or consulting) with respect to any PATENT, TRADEMARK, COPYRIGHT or OTHER PROPRIETARY RIGHTS, regardless of

whether the BORROWER is a licensor or licensee, distributor or distributee under any such agreement, together with any and all: (a) amendments, renewals, extensions, supplements and continuations thereof; (b) income, fees, royalties, damages, claims and payments now and hereafter due and/or payable thereunder and with respect thereto including damages and payments for past, present or future breaches or violations thereof; and (c) rights to sue for past, present and future breaches or violations thereof.

Section 1.41. Interest Rate Hedge Agreement. The term "INTEREST RATE HEDGE AGREEMENT" means any of the following, whether currently existing or arising in the future, between the BORROWER and the LENDER: (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement.

Section 1.42. Laws. The term "LAWS" means all ordinances, statutes, rules, regulations, orders, injunctions, writs or decrees of any government or political subdivision or agency thereof, or any court or similar entity established by any thereof.

Section 1.43. Lender Expenses. The term "LENDER EXPENSES" means the documented, out-of-pocket expenses or costs incurred by the LENDER arising out of, pertaining to, or in any way connected with this AGREEMENT, any of the other LOAN DOCUMENTS or the OBLIGATIONS, or any documents executed in connection herewith or transactions hereunder (including, but not limited to, the SUBORDINATION AGREEMENT). The term "LENDER EXPENSES" shall include, without limitation: (a) the costs or expenses required to be paid by the BORROWER pursuant to this AGREEMENT or any other LOAN DOCUMENT; (b) taxes and insurance premiums advanced or otherwise paid by the LENDER in connection with the COLLATERAL or on behalf of the BORROWER; (c) filing, recording, audit fees, search fees, consulting fees and other expenses paid or incurred by the LENDER in connection with the LENDER'S transactions with the BORROWER under the LOAN DOCUMENTS; (d) costs and expenses incurred by the LENDER in the collection of the ACCOUNTS (with or without the institution of legal action), or to enforce any provision of this AGREEMENT, or in gaining possession of, maintaining, handling, evaluating, preserving, storing, shipping, selling, preparing for sale and/or advertising to sell the COLLATERAL or any other property of the BORROWER whether or not a sale is consummated; (e) costs and expenses of litigation incurred by the LENDER in enforcing or defending this AGREEMENT or any portion hereof or in collecting any of the OBLIGATIONS; (f) reasonable attorneys' fees and expenses incurred by the LENDER in obtaining advice or the services of its attorneys with respect to the structuring, drafting, negotiating, reviewing, amending, terminating, enforcing or defending of this AGREEMENT, or any portion hereof or any agreement or matter related hereto, whether or not litigation is instituted; and (g) reasonable travel expenses of LENDER related to any of the foregoing.

Section 1.44. Lien. The term "LIEN" means any lien, security interest, mortgage, deed of trust, charge or other encumbrance or security arrangement of any nature whatsoever, whether voluntary or involuntary.

Section 1.45. Loan. The term "LOAN" means the term loan extended by the LENDER to the BORROWER in accordance with the terms set forth in this AGREEMENT.

Section 1.46. Loan Documents. The term "LOAN DOCUMENTS" means all agreements, instruments and documents, including without limitation all loan agreements (including without limitation this AGREEMENT), notes (including without limitation the NOTE), guarantees, subordination agreements, intercreditor agreements, pledges, affidavits, powers of attorney, consents, assignments, landlord and mortgage waivers, opinions, collateral assignments, reimbursement agreements, contracts, notices, leases, financing statements, assignments of contract proceeds, intellectual property security agreements, pledges, letter of credit applications, INTEREST RATE HEDGE AGREEMENTS, and all other written matter, whether heretofore, now or hereafter executed by BORROWER, or by any SUBSIDIARY in connection with this AGREEMENT.

Section 1.47. Loan Parties. The term "LOAN PARTIES", collectively, the BORROWER and the GUARANTOR.

Section 1.48. Lock Box. *RESERVED*

Section 1.49. Material Adverse Event. The term "MATERIAL ADVERSE EVENT" means the occurrence of any event, condition, or omission which the LENDER in the good faith reasonable exercise of the LENDER'S discretion determines could reasonably be expected to have a material adverse effect upon: (a) the condition (financial or otherwise), results of operations, properties, assets, liabilities (including, without limitation, tax liabilities, liabilities under ENVIRONMENTAL LAWS, and ERISA LIABILITIES), businesses, operations, capitalization, equity, licenses or franchises of the BORROWER; (b) the ability of the BORROWER to perform any of the OBLIGATIONS when and as required by the terms of the LOAN DOCUMENTS; (c) the rights and remedies of the LENDER as provided by the LOAN DOCUMENTS; or (d) the value, condition, use, or availability of any material portion of the COLLATERAL or upon any of the LENDER'S LIENS securing the OBLIGATIONS.

Section 1.50. Material Contract. The term "MATERIAL CONTRACT" means, with respect to any PERSON, (i) each contract or agreement to which such PERSON or any of its SUBSIDIARIES is a party involving aggregate consideration payable to or by such PERSON or such SUBSIDIARY of One Hundred Thousand Dollars ($100,000.00) or more, and (ii) all other contracts or agreements material to the business, operations, condition (financial or otherwise), performance, prospects or properties of such PERSON or such SUBSIDIARY.

Section 1.51. Multiemployer Plan. The term "MULTIEMPLOYER PLAN" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA which is maintained for employees of the BORROWER, or any ERISA AFFILIATE of the BORROWER.

Section 1.52. Note. The term "NOTE" means the Term Loan Promissory Note of even date herewith from the BORROWER as maker thereof which is payable to the order of the LENDER in the stated principal amount of Two Million Dollars ($2,000,000.00).

Section 1.53. OFAC. The term "OFAC" means the Office of Foreign Asset Control of the United States Department of Treasury.

Section 1.54. Obligations. The term "OBLIGATIONS" means collectively all of the following obligations of the BORROWER to pay to the LENDER: (a) sums due to the LENDER arising out of or in connection with the LOAN or otherwise pursuant to the terms of the LOAN DOCUMENTS; (b)

indemnification obligations owed by the BORROWER to the LENDER in accordance with the terms of the LOAN DOCUMENTS; (c) LENDER EXPENSES; (d) overdrafts of the BORROWER upon any DEPOSIT ACCOUNT with the LENDER; (e) payments, duties or obligations owed to the LENDER arising from or with respect to INTEREST RATE HEDGE AGREEMENTS, foreign exchange facilities or currency transactions, existing or arising from time to time; (f) any sums owed to the LENDER arising out of or relating to any letters of credit including, without limitation, all reimbursement and indemnification obligations, and obligations to pay fees; ; (g) all obligations and liabilities owed to the LENDER in connection with BANK PRODUCTS; and (h) any indebtedness or liability which may exist or arise as a result of any payment made with respect to any of the foregoing by or for the benefit of the BORROWER being avoided or set aside for any reason including, without limitation, any such payment being avoided as a preference under Sections 547 and 550 of the United States Bankruptcy Code, as amended, or under any state law governing insolvency or creditors' rights.

Section 1.55. Other Proprietary Rights. The term ""OTHER PROPRIETARY RIGHTS" means, collectively, trade secrets and confidential information, data and databases, know-how and processes, designs, inventions, technology and software and any other intangible rights, to the extent not covered by the definitions of PATENTS, TRADEMARKS and COPYRIGHTS, whether statutory or common law, whether registered or unregistered, and whether established or registered in the United States or any other country or any political subdivision thereof, together with any and all: (a) registrations and applications for the foregoing; (b) income, fees, royalties, damages and payments now and hereafter due and/or payable thereunder and with respect thereto, including, without limitation, damages, claims and payments for past, present or future infringements or other violations thereof; (c) rights to sue for past, present and future infringements and other violations thereof; and (d) rights corresponding thereto throughout the world.

Section 1.56. Patents. The term "PATENTS" means, collectively, patents, patent applications, certificates of inventions, and industrial designs (whether established or registered or recorded in the United States or any other country or any political subdivision thereof), together with any and all: (a) inventions described and claimed therein; (b) reissues, divisions, continuations, extensions and continuations-in-part thereof; (c) income, fees, royalties, damages, claims and payments now or hereafter due and/or payable thereunder and with respect thereto including damages and payments for past, present or future infringements or other violations thereof; (d) rights to sue for past, present or future infringements or other violations thereof; and (e) rights corresponding thereto throughout the world.

Section 1.57. Permitted Indebtedness. The term "PERMITTED INDEBTEDNESS" means: (a) the OBLIGATIONS; (b) indebtedness secured by PERMITTED LIENS; (c) INDEBTEDNESS owing to the providers of insurance or their AFFILIATES incurred to finance deferred insurance premiums in the ordinary course of business; (d) INDEBTEDNESS in respect of advance payments by customers under purchase contracts in the ordinary course of business; (e) INDEBTEDNESS consisting of guaranty obligations in respect of loans and advances to employees, officers or directors of the BORROWER or any SUBSIDIARY in the ordinary course of business (including for travel, entertainment and relocation expenses) provided that the aggregate amount of such INDEBTEDNESS does not exceed Twenty-Five Thousand Dollars ($25,000.00); and (f) INDEBTEDNESS listed in Schedule 1.57 attached hereto.

Section 1.58. Permitted Liens. The term "PERMITTED LIENS" means: (a) LIENS for taxes, assessments, or similar charges incurred in the ordinary course of business that are not yet due and payable; (b) LIENS in favor of the LENDER; (c) any LIEN on specifically allocated money or securities to secure payments under workmen's compensation, unemployment insurance, social security and other similar LAWS, or to secure the performance of bids, tenders or contracts (other than for the repayment of borrowed money) or to secure statutory obligations or appeal bonds, or to secure indemnity, performance or other similar bonds in the ordinary course of business; (d) purchase money security interests for

EQUIPMENT securing INDEBTEDNESS or LIENS securing capitalized lease obligations, provided that such purchase money security interests or other LIENS do not attach to any to any assets other than the specific item(s) of EQUIPMENT acquired with the proceeds of the loan secured by such purchase money security interests or CAPITAL LEASE OBLIGATIONS and that the aggregate amount of INDEBTEDNESS incurred in any FISCAL YEAR secured by any such purchase money security interests and CAPITAL LEASE OBLIGATIONS does not exceed Five Hundred Thousand Dollars ($500,000.00) at any one time outstanding; (e) LIENS of carriers, warehousemen, suppliers, or other PERSONS that are possessory in nature arising in the ordinary course of business so long as such LIENS attach only to INVENTORY and which are not delinquent by more than forty-five (45) days or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto and for which the BORROWER has established appropriate reserves; (f) banker's LIENS, rights of setoff and LIENS in favor of financial institutions incurred in the ordinary course of business arising in connection with the BORROWER'S or any SUBSIDIARY'S deposit accounts or securities accounts held at such institutions solely to secure payment of fees and similar costs and expenses; (g) LIENS arising from judgments, decrees or attachments in circumstances not constituting an EVENT OF DEFAULT; (h) the subsequently arising LIENS which are expressly approved in advance of the creation of any such LIENS by the LENDER in writing; and (i) non-consentual LIENS securing indebtedness in an aggregate amount not to exceed Fifty Thousand Dollars ($50,000.00).

Section 1.59. Person. The term "PERSON" means any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, estate, unincorporated organization, joint venture, court, government or political subdivision or agency thereof, or other legal entity.

Section 1.60. Prohibited Person. The term "PROHIBITED PERSON" means any PERSON (a) that is listed in the annex to, or is otherwise subject to the provisions of, the ANTI-TERRORISM ORDER; (b) that is owned or controlled by, or acting for or on behalf of, any person or entity that is listed in the annex to, or is otherwise subject to the provisions of the ANTI-TERRORISM ORDER; (c) that commits, threatens or conspires to commit or supports "terrorism" as defined in the ANTI-TERRORISM ORDER; (d) that is named as a "specifically designated national (SDN)" on the most current list published by OFAC at its official website, http://www.treas.gov.ofac/t11sdn.pdf or at any replacement website or other replacement official publication of such list; (e) that is covered by International Emergency Economic Powers Act or OFAC; or (f) that is an affiliate (including any principal, officer, immediate family member or close associate) of a PERSON described in one or more of clauses (a) – (e) of this definition.

Section 1.61. PTO. The term "PTO" means the United States Patent and Trademark Office and any substitute or successor agency.

Section 1.62. Receivables. The term "RECEIVABLES" means all of the ACCOUNTS, INSTRUMENTS, DOCUMENTS, GENERAL INTANGIBLES, CHATTEL PAPER, notes, notes receivable, drafts, acceptances, and chooses in action, of the BORROWER, now existing or hereafter created or acquired, and all proceeds and products thereof, and all rights thereto, arising from the sale or lease of or the providing of INVENTORY, GOODS, or services by the BORROWER to ACCOUNT DEBTORS, as well as all other rights, contingent or non-contingent, of any kind of the BORROWER to receive payment, benefit, or credit from any PERSON.

Section 1.63. Records. The term "RECORDS" means correspondence, memoranda, tapes, discs, papers, books and other documents, or transcribed information of any type, whether expressed in ordinary, computer or machine language.

Section 1.64. Regulated Substance. The term "REGULATED SUBSTANCE" means any substance which, pursuant to any ENVIRONMENTAL LAW, is identified as a hazardous substance (or other term having similar import) or is otherwise subject to special requirements in connection with the use, storage, transportation, disposition or other handling thereof.

Section 1.65. Release. The term "RELEASE" means a "release" as defined in Section 101(22) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as now or hereafter amended.

Section 1.66. Responsible Officer. The term "RESPONSIBLE OFFICER" means the BORROWER'S President/Chief Executive Officer and Chief Financial Officer.

Section 1.67. Restricted Payment. The term "RESTRICTED PAYMENT" means collectively: (a) any dividend or other payment or distribution, direct or indirect, on ACCOUNT of any equity interest in the BORROWER now or hereafter outstanding, except a dividend or distribution payable solely in the same class or type of equity interest to the holders of that class or type; (b) any redemption, conversion, exchange, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, by the BORROWER of any equity interest in the BORROWER now or hereafter outstanding; (c) any payment made by the BORROWER to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire equity interests in the BORROWER now or hereafter outstanding; or (d) any payment by the BORROWER of any management, consulting or similar fees which are not in amounts comparable to sums paid in the marketplace for similar services to unrelated employees for services actually performed.

Section 1.68. Sanctioned Country. The term "SANCTIONED COUNTRY" means a country subject to the sanctions program identified on the list maintained by OFAC and available at http://www.treas.gov/offices/eotffc/ofac/sanctions/index.html or as otherwise published from time to time.

Section 1.69. Sanctioned Person. The term "SANCTIONED PERSON" means (a) a PERSON named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at http://www.treas.gov/offices/eotffc/ofac/sdn/index.html or as otherwise published from time to time, or (b) (i) an agency of the government of a SANCTIONED COUNTRY, (ii) an organization controlled by a SANCTIONED COUNTRY, or (iii) a PERSON resident in a SANCTIONED COUNTRY, to the extent subject to a sanctions program administered by OFAC.

Section 1.70. Solvent. The term "SOLVENT" means, as to any referenced PERSON, that as of the date of determination both: (a) (i) the then fair saleable value of the property of such PERSON is greater than the total amount of liabilities (including contingent liabilities) of such PERSON and is not less than the amount that will be required to pay the probable liabilities on such PERSON'S then existing debts as they become absolute and matured considering all financing alternatives and potential asset sales reasonably available to such PERSON; (ii) such PERSON'S capital is not unreasonably small in relation to its business or any contemplated or undertaken transaction; and (iii) such PERSON does not intend to incur, or believe (nor should it reasonably believe) that it will incur, debts beyond its ability to pay such debts as they become due; and (b) such PERSON is "solvent" within the meaning given that term and similar terms under applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

Section 1.71. Subsidiary. The term "SUBSIDIARY" means, with respect to any PERSON, any

other PERSON of which securities or other ownership interests representing an aggregate of fifty percent (50%) or more of the equity or the ordinary voting power are, at the time as of which any determination is being made, owned or controlled directly, or indirectly through one or more intermediaries, by such PERSON.

Section 1.72. Synthetic Lease Obligation. The term "SYNTHETIC LEASE OBLIGATION" means the monetary obligation of a PERSON under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such PERSON but which, upon the insolvency or bankruptcy of such PERSON, would be characterized as the indebtedness of such PERSON.

Section 1.73. Termination Event. The term "TERMINATION EVENT" means: (a) a "Reportable Event" described in Section 4043 of ERISA and the regulations issued thereunder, but not including any such event for which the 30-day notice requirement has been waived by applicable regulation; (b) the withdrawal of the BORROWER or an ERISA AFFILIATE of the BORROWER from a GUARANTEED PENSION PLAN during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; (c) the filing of a notice of intent to terminate a GUARANTEED PENSION PLAN or the treatment of a GUARANTEED PENSION PLAN amendment as a termination under Section 4041 of ERISA; (d) the institution of proceedings to terminate a GUARANTEED PENSION PLAN by the Pension Benefit Guaranty Corporation; (e) the withdrawal or partial withdrawal of the BORROWER or an ERISA AFFILIATE of the BORROWER from a MULTIEMPLOYER PLAN; or (f) any other event or condition which might reasonably be expected to constitute grounds under ERISA for the termination of, or the appointment of a trustee to administer, any GUARANTEED PENSION PLAN.

Section 1.74. Trademarks. The term "TRADEMARKS" means, collectively, all trademarks, service marks, certification marks, trade names, slogans, logos, trade dress, domain names , and other similar source identifiers, whether statutory or common law, whether registered or unregistered, and whether established or registered in the United States or any other country or any political subdivision thereof, together with any and all: (a) registrations and applications for any of the foregoing; (b) goodwill connected with the use thereof and symbolized thereby; (c) rights and privileges arising under applicable law with respect to the use of any of the foregoing; (d) reissues, continuations, extensions and renewals thereof; (e) income, fees, royalties, damages and payments now and hereafter due and/or payable thereunder and with respect thereto, including damages, claims and payments for past, present or future infringements, dilutions or other violations thereof; (f) rights to sue for past, present and future infringements, dilutions or other violations thereof; and (g) rights corresponding thereto throughout the world.

Section 1.75. Trademark Security Agreement. The term "TRADEMARK SECURITY AGREEMENT" means the Trademark Security Agreement dated as of the date hereof, made by and between the BORROWER and the LENDER.

Section 1.76. UCC. The term "UCC" means the Uniform Commercial Code, as adopted and amended in the Commonwealth of Virginia.

Section 1.77. Unfunded Capital Expenditures. The term "UNFUNDED CAPITAL EXPENDITURES" means for any applicable period, capital expenditures made by any of the COMPANIES during such period, excluding any capital expenditures paid from proceeds of INDEBTEDNESS (other than proceeds of INDEBTEDNESS arising from borrowings under any working capital line of credit or similar short term financing, such as the LOAN).

ARTICLE 2.
TERMS OF THE LOAN

Section 2.1. Conditions Precedent. As a condition to CLOSING, LENDER shall have received, or concluded, the following in form and substance to LENDER:

Section 2.1.1. Loan Documents. The following LOAN DOCUMENTS shall be fully executed and delivered: this AGREEMENT, the TRADEMARK SECURITY AGREEMENT, and the NOTE.

Section 2.1.2. Insurance. Insurance certificates showing coverage limits acceptable to the LENDER.

Section 2.1.3. No Adverse Change. There shall exist no material adverse change in the business, assets, liabilities, operations, financial conditions or executive management of the BORROWER since June 30, 2014.

Section 2.1.4. Representations And Warranties. Each of the representations and warranties set forth in this AGREEMENT shall be true, accurate, and complete in all material respects.

Section 2.1.5. Liens. Satisfactory evidence that the LENDER'S LIENS securing the OBLIGATIONS will be first priority LIENS subject only to PERMITTED LIENS.

Section 2.2. Agreement To Extend The Loan. Subject to the terms and conditions stated herein, the LENDER agrees to loan to the BORROWER as proceeds of the LOAN the sum of Two Million Dollars ($2,000,000.00).

Section 2.3. Note. All sums advanced under the LOAN shall be evidenced by, and shall be repaid with interest in accordance with, the provisions of the NOTE, the terms and conditions of which are incorporated herein by reference.

Section 2.4. Term. All sums outstanding under the LOAN shall be paid in full on the date occurring thirty (30) months after CLOSING.

Section 2.5. Purpose. The proceeds of the LOAN shall be used by the BORROWER solely to repay a portion of the INDEBTEDNESS owed by the BORROWER to Jess Ravisch.

Section 2.6. Mandatory Prepayment. All EXTRAORDINARY RECEIPTS in excess of Two Hundred Thousand Dollars ($200,000.00) shall be paid by the BORROWER to the LENDER to reduce the principal amount outstanding under the LOAN, in the inverse order of scheduled maturities.

Section 2.7. Capital Adequacy. If the LENDER determines at any time that the adoption or implementation of any CAPITAL ADEQUACY REQUIREMENT, or the compliance therewith by the LENDER or any corporation or other PERSON controlling the LENDER, affects the amount of capital to be maintained by the LENDER or any PERSON controlling the LENDER as a result of its obligations hereunder, or reduces the effective rate of return on the LENDER'S or such controlling PERSON'S capital to a level below that which the LENDER or such controlling PERSON would have achieved but for such CAPITAL ADEQUACY REQUIREMENT as a consequence of its obligations hereunder (taking into consideration the LENDER'S or such controlling PERSON'S policies with respect to capital adequacy), then after submission by the LENDER to the BORROWER of a written request therefore and a statement of the basis for such determination, the BORROWER shall pay to the LENDER such additional amounts

as will compensate the LENDER or the controlling PERSON for the cost of maintaining the increased capital or for the reduction in the rate of return on capital, together with interest thereon at the highest rate of interest then in effect under the NOTE from the date the LENDER requests such additional amounts until those amounts are paid in full.

Section 2.8. Payments. All payments received by the LENDER which are to be applied to reduce the OBLIGATIONS shall be credited to the balances due from the BORROWER pursuant to the normal and customary practices of the LENDER. If any payment is avoided or set aside under any provision of the United States Bankruptcy Code, including Sections 547 and 550, or any state law governing insolvency or creditors' rights, the payment shall be considered not to have been made for all purposes of this AGREEMENT and the LENDER shall adjust its records to reflect the fact that the avoided payment was not made and has not been credited against the OBLIGATIONS.

Section 2.9. Advancements. If the BORROWER fail to perform any of its agreements or covenants contained in this AGREEMENT or if the BORROWER fail to protect or preserve the COLLATERAL or the status and priority of the security interest of the LENDER in the COLLATERAL, the LENDER may make advances to perform the same on behalf of the BORROWER to protect or preserve the COLLATERAL or the status and priority of the security interest of the LENDER in the COLLATERAL, and all sums so advanced shall immediately upon advance become secured by the security interests granted in this AGREEMENT, and shall become part of the principal amount owed to the LENDER with interest to be assessed at the applicable rate thereon and subject to the terms and provisions of this AGREEMENT and all of the LOAN DOCUMENTS. The BORROWER shall repay on demand all sums so advanced on the BORROWER'S behalf, plus all expenses or costs incurred by the LENDER, including reasonable legal fees, with interest thereon at the highest rate authorized in the NOTE. The provisions of this Section shall not be construed to prevent the institution of the rights and remedies of the LENDER upon the occurrence and during the continuance of an EVENT OF DEFAULT. The authorization contained in this Section is not intended to impose any duty or obligation on the LENDER to perform any action or make any advancement on behalf of the BORROWER and is intended to be for the sole benefit and protection of the LENDER.

Section 2.10. Payment Absolute. All payments of the OBLIGATIONS, including, without limitation, principal, interest, prepayments and fees, shall be paid by the BORROWER without setoff, recoupment or counterclaim to the LENDER at the LENDER'S office specified in the NOTE in United States Dollars and in immediately available funds not later than 12:00 noon on the due date of such payment. All payments received by the LENDER after 12:00 p.m. shall, at the option of the LENDER, be deemed received on the next succeeding BUSINESS DAY and any applicable interest or fee shall continue to accrue.

Section 2.10.1. Alternatively, at its sole discretion, the LENDER may, with prior written notice to the BORROWER, charge any deposit account of the BORROWER at the LENDER with all or any part of any amount due hereunder to the extent that the BORROWER has not otherwise tendered payment to the LENDER. All payments shall be applied to the OBLIGATIONS in such order as the LENDER may elect.

Section 2.10.2. The BORROWER also hereby authorizes the LENDER to make advances under the LOAN to make payment of all principal, interest and fees to be made hereunder and under the other LOAN DOCUMENTS. The LENDER may, but shall not be obligated to, discharge the BORROWER'S payment obligations hereunder by so making advances under the LOAN.

Section 2.10.3. If any payment to be made by the BORROWER shall come due on a day other than a BUSINESS DAY, payment shall be made on the next following BUSINESS DAY, and such extension of time shall be reflected in computing interest or fees, as the case may be.

Section 2.10.4. A notice from the LENDER to the BORROWER with respect to any amount owing under this Section shall be conclusive, absent manifest error.

## ARTICLE 3.
## SECURITY FOR THE OBLIGATIONS

The payment, performance and satisfaction of the OBLIGATIONS shall be secured by the following assurances of payment and security.

Section 3.1. Grant Of Security Interest. In order to secure the repayment and performance of all OBLIGATIONS, both currently existing and arising in the future, the BORROWER grants to the LENDER an immediate and continuing security interest in and to the COLLATERAL. The BORROWER further pledges, hypothecates and grants to the LENDER a continuing security interest in and to, all amounts that may be owing at any time and from time to time by the LENDER to the BORROWER in any capacity, including but not limited to any balance or share belonging to the BORROWER of any deposit or other account with the LENDER, which security interest shall be independent of and in addition to any right of set-off to which the LENDER may be entitled.

Section 3.2. Proceeds And Products. The LENDER'S security interests provided for herein shall apply to the proceeds, including but not limited to insurance proceeds, and the products of the COLLATERAL.

Section 3.3. Priority Of Security Interests. Each of the security interests, pledges, and LIENS granted by the BORROWER to the LENDER pursuant to any of the LOAN DOCUMENTS shall be the only security interests, pledges, and LIENS in the COLLATERAL other than the PERMITTED LIENS, and such security interests, pledges and LIENS in the COLLATERAL of the LENDER: (a) in which a security interest may be perfected by filing a financing statement under the UCC, subject to the filing of any such financing statement; and (b) constituting INSTRUMENTS, CHATTEL PAPER, and certificated INVESTMENT PROPERTY, subject to the deliveries contemplated under this AGREEMENT, in each case, shall be perfected first priority security interests, pledges, and LIENS, subject only to the PERMITTED LIENS.

Section 3.4. Future Advances. The security interests, liens, and pledges granted by the BORROWER to the LENDER pursuant to the LOAN DOCUMENTS shall secure all current and all future advances made by the LENDER to the BORROWER under this AGREEMENT, or for the account or benefit of the BORROWER, and the LENDER may advance or readvance upon repayment by the BORROWER all or any portion of the sums loaned to the BORROWER under this AGREEMENT and any such advance or readvance shall be fully secured by the security interests, liens, and pledges created by the LOAN DOCUMENTS.

Section 3.5. Maintenance Of Accounts. As further security for the OBLIGATIONS, the BORROWER shall maintain its primary accounts and treasury management services with the LENDER.

Section 3.6. Further Assurances. The BORROWER will, at its expense, promptly execute and deliver all further instruments and documents and take all further action that may be necessary or

desirable or that the LENDER may reasonably request from time to time in order: (a) to perfect and protect the security interests to be created hereby; (b) to enable the LENDER to exercise and enforce its rights and remedies hereunder in respect of the COLLATERAL; or (c) otherwise to effect the purposes of this AGREEMENT, including, without limitation: (i) upon the BORROWER'S acquisition thereof, delivering to the LENDER each item of CHATTEL PAPER of the BORROWER with a face amount or value in excess of $50,000, (ii) if any RECEIVABLES are evidenced by an INSTRUMENT with a face amount or value in excess of $50,000 delivering and pledging to the LENDER such INSTRUMENT duly endorsed and accompanied by executed instruments of transfer or assignment, all in form and substance satisfactory to the LENDER, (iii) delivering to the LENDER all DOCUMENTS evidencing any material INVENTORY unless the LENDER agrees in writing that the BORROWER may maintain possession of such DOCUMENTS, and (iv) upon the acquisition after the date hereof of any COLLATERAL with a value in excess of $50,000 for which an assignment, pledge, mortgage, or other document is required to be filed in order to grant or perfect a LIEN therein for the benefit of the LENDER, execute and deliver to the LENDER such assignment, pledge, mortgage, or other INSTRUMENT within thirty (30) days (or such later date as the LENDER may agree in its discretion) of the acquisition thereof. If the BORROWER fails to execute any instrument or document described above within ten (10) BUSINESS DAYS of being requested to do so by the LENDER, the BORROWER hereby appoints the LENDER or any officer of the LENDER as the BORROWER'S attorney in fact for purposes of executing such instruments or documents in the BORROWER'S name, place and stead, which power of attorney shall be considered as coupled with an interest and irrevocable. Notwithstanding the aforegoing to the contrary, the BORROWER shall not be required to execute or deliver any instruments or documents in order to perfect the LENDER'S lien in (i) EQUIPMENT covered by a certificate of title, (ii) leasehold interests in assets, or (iii) "Intent to Use" applications for trademarks or service marks registrations.

Section 3.7. After-Acquired Intellectual Property Collateral. If the BORROWER shall, at any time after the date hereof, obtain any ownership or other rights in and to any additional INTELLECTUAL PROPERTY, then the provisions of this AGREEMENT shall automatically apply thereto and any such INTELLECTUAL PROPERTY (other than any EXCLUDED PROPERTY) shall automatically constitute COLLATERAL and shall be subject to the lien and security interest created by this AGREEMENT, without further action by any party. The BORROWER shall provide to the LENDER written notice of any such additional INTELLECTUAL PROPERTY (excluding "Intent to Use" applications or service marks registrations) material to the BORROWER'S business which is the subject of a registration or application in the United States (including INTELLECTUAL PROPERTY which was theretofore unregistered and becomes the subject of a registration or application in the United States) and deliver to the LENDER an instrument in form and substance reasonably acceptable to the LENDER, and undertake the filing of any instruments or statements reasonably requested in writing by the LENDER as shall be reasonably necessary to create, record, preserve, protect or perfect the LENDER'S lien and security interest in such INTELLECTUAL PROPERTY COLLATERAL. The BORROWER shall provide such notice and deliver the appropriate agreements and make any filings requested in writing, in each case to the extent required under this section, by the end of the calendar quarter in which the BORROWER'S acquisition of the INTELLECTUAL PROPERTY rights occurred; provided that if any such acquisition occurred within the last twenty (20) days of such calendar quarter, the BORROWER may complete such actions by the end of the following calendar quarter.

ARTICLE 4.
REPRESENTATIONS AND WARRANTIES

To induce the LENDER to extend the LOAN and to enter into this AGREEMENT, the BORROWER makes the representations and warranties set forth in this Article 4. The BORROWER acknowledges the LENDER'S justifiable right to rely upon these representations and warranties.

Section 4.1. Accuracy Of Information. All information submitted by or on behalf of the BORROWER in connection with any of the OBLIGATIONS is , taken as a whole, true, accurate and complete in all material respects as of the date made and contains no knowingly false, incomplete or misleading statements.

Section 4.2. No Litigation. There are no actions, suits, investigations, or proceedings pending or, to the knowledge of the BORROWER, threatened in writing against the BORROWER or the assets of the BORROWER not covered by insurance, which, if determined adversely to the BORROWER could require the BORROWER to pay over more than One Hundred Fifty Thousand Dollars ($150,000.00) in the aggregate, except as specifically disclosed on Schedule 4.2 attached hereto.

Section 4.3. No Liability Or Adverse Change. The BORROWER has no direct or contingent liability known to the BORROWER and not previously disclosed to the LENDER, nor does the BORROWER know of or have any reason to reasonably expect any material adverse change in the BORROWER'S assets, liabilities, properties, business, or condition, financial or otherwise.

Section 4.4. Title To Collateral. The BORROWER has good and marketable title to the COLLATERAL. The LIENS granted by the BORROWER to the LENDER in the COLLATERAL will have the priority required by the LOAN DOCUMENTS.

Section 4.5. Authority; Approvals And Consents.

Section 4.5.1. Authority. The BORROWER has the legal authority to enter into each of the LOAN DOCUMENTS and to perform, observe and comply with all of the BORROWER'S agreements and obligations thereunder, including, without limitation the borrowings contemplated hereby.

Section 4.5.2. Approvals. The execution and delivery by the BORROWER of each of the LOAN DOCUMENTS, the performance by the BORROWER of all of its agreements and obligations under the LOAN DOCUMENTS, and the borrowings contemplated by this AGREEMENT, have been duly authorized by all necessary action on the part of the BORROWER and do not and will not (i) contravene any provision of the organizational documents of the BORROWER; (ii) materially conflict with, or result in a material breach of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any LIEN upon any of the property of the BORROWER under any agreement, trust deed, indenture, mortgage or other instrument to which the BORROWER is a party or by which the BORROWER or any property of the BORROWER is bound or affected (except for LIENS created for the benefit of the LENDER); (iii) violate or contravene any provision of any LAW, rule or regulation (including, without limitation, Regulations G, T, U or X of the Board of Governors of the Federal Reserve System) or any order, ruling or interpretation thereunder or any decree, order of judgment of any court or governmental or regulatory authority, bureau, agency or official (all as from time to time in effect and applicable to the BORROWER); or (iv) require any waivers, consents or approvals by any of the creditors of the BORROWER.

Section 4.5.3. Consents. Other than filings and recordings required to perfect the

security interests and LIENS granted hereunder, no approval, consent, order, authorization or license by, or giving notice to, or taking any other action with respect to, any governmental or regulatory authority or agency is required for the execution and delivery by the BORROWER of the LOAN DOCUMENTS or for the performance by the BORROWER of any of the agreements and obligations thereunder.

Section 4.6. Binding Effect Of Documents, Etc. Each of the LOAN DOCUMENTS which the BORROWER has executed and delivered as contemplated and required to be executed and delivered as of the date of CLOSING by this AGREEMENT, has been duly executed and delivered by the BORROWER and is the legal, valid and binding obligation of the BORROWER and is enforceable against the BORROWER in accordance with all stated terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principals (whether enforcement is sought by proceedings in law or equity).

Section 4.7. Perfection Certificates. All of the information set forth in the Perfection Certificate executed by the BORROWER and delivered to the LENDER prior to the date hereof is, taken as a whole, true, accurate and complete in all material respects and not materially misleading.

Section 4.8. No Events Of Default. There is not currently existing any action, event, or condition which presently constitutes a DEFAULT or an EVENT OF DEFAULT.

Section 4.9. Taxes. All Federal and other material tax returns, reports and statements, including information returns, required by any GOVERNMENTAL AUTHORITY to be filed by the BORROWER or its SUBSIDIARIES have been filed with the appropriate GOVERNMENTAL AUTHORITY, and all material CHARGES have been paid prior to the date on which any fine, penalty, interest or late charge may be added thereto for nonpayment thereof, excluding CHARGES or other amounts being contested in accordance with Section 5.8 and unless the failure to so file or pay would not reasonably be expected to result in fines, penalties or interest. Proper and accurate amounts have been withheld by the BORROWER and its SUBSIDIARIES from its respective employees for all periods in material compliance with all applicable federal, state, local and foreign laws and such withholdings have been timely paid to the respective GOVERNMENTAL AUTHORITIES. Schedule 4.9 sets forth as of the CLOSING those taxable years for which the BORROWER'S or its SUBSIDIARIES' tax returns are currently being audited by the Internal Revenue Service or any other applicable GOVERNMENTAL AUTHORITY and any assessments or threatened assessments in connection with such audit, or otherwise currently outstanding. Except as described in Schedule 4.9, as of the CLOSING, neither the BORROWER nor any SUBSIDIARY thereof has executed or filed with any GOVERNMENTAL AUTHORITY any agreement or other document extending, or having the effect of extending, the period for assessment or collection of any material CHARGES. Neither the BORROWER nor any of its SUBSIDIARIES is liable for any material CHARGES: (a) under any agreement (including any tax sharing agreements) or (b) to the BORROWER'S knowledge, as a transferee. As of the CLOSING, neither the BORROWER nor any of its SUBSIDIARIES has agreed or been requested to make any adjustment under Section 481(a) of the Code, by reason of a change in accounting method or otherwise, which could reasonably be expected to cause a MATERIAL ADVERSE EVENT.

Section 4.10. Compliance With Laws. The BORROWER has complied in all material respects with all applicable LAWS, including, but not limited to, all LAWS with respect to: (a) all restrictions, specifications, or other requirements pertaining to products that it sells or to the services it performs; (b) the conduct of its business; and (c) the use, maintenance, and operation of the real and personal properties owned or leased by it in the conduct of its business.

Section 4.11. Approvals. The BORROWER possesses all material franchises, approvals,

licenses, contracts, merchandising agreements, merchandising contracts and governmental approvals, registrations and exemptions necessary for it lawfully to conduct its business and operation as presently conducted and as anticipated to be conducted after CLOSING.

Section 4.12. Financial Statements. The financial statements of the BORROWER which have been delivered to the LENDER prior to the date of this AGREEMENT, fairly present the financial condition of the BORROWER in all material respects as of the respective dates thereof and the results and operations of the BORROWER in all material respects for the fiscal periods ended on such respective dates, all in accordance with G.A.A.P. The BORROWER has no direct or contingent liability or obligation known to the BORROWER and not disclosed on its financial reports filed with the Securities and Exchange Commission.

Section 4.13. Solvency. The BORROWER and its SUBSIDIARIES will be SOLVENT on a consolidated basis both before and after CLOSING, after giving full effect to the OBLIGATIONS and all of the BORROWER'S and its SUBSIDIARIES' liabilities.

Section 4.14. Employee Relations. Neither the BORROWER nor any SUBSIDIARY of the BORROWER is a party or otherwise subject to any collective bargaining or other agreement with any labor union, nor is any such agreement currently being negotiated. For the past five years, there has not been a representation question before the National Labor Relations Board respecting any of the employees of the BORROWER or the BORROWER'S SUBSIDIARIES and, to the knowledge of BORROWER, there are no campaigns currently being conducted to solicit cards from employees of the BORROWER or the BORROWER'S SUBSIDIARIES to authorize representation by any labor union or labor organization. To the knowledge of the BORROWER, neither the BORROWER nor any of the SUBSIDIARIES of the BORROWER is engaged, or, since January 1, 2011, has been engaged, in any unfair labor practice (as defined under the National Labor Relations Act). For the past five years, there has not been any work stoppage, lockout, strike or labor dispute involving the BORROWER or the BORROWER'S SUBSIDIARY, and no such work stoppage, lockout, strike or labor dispute is pending or, to the knowledge of the BORROWER, threatened in writing to commence.

Section 4.14.1. There are no proceedings pending or, to the knowledge of the BORROWER, threatened in writing against the BORROWER or the BORROWER'S SUBSIDIARY by, on behalf of or with respect to any employee or contractor of the BORROWER or the BORROWER'S SUBSIDIARY (each a "Worker") or group of Workers that would be material to the BORROWER and its SUBSIDIARIES, taken as a whole. There are no charges, investigations, administrative proceedings or formal complaints of discrimination (including discrimination based upon sex, age, marital status, race, national origin, sexual orientation, disability or veteran status) threatened in writing or pending before the Equal Employment Opportunity Commission, the National Labor Relations Board, the U.S. Department of Labor, the U.S. Occupational Health and Safety Administration, the Workers Compensation Appeals Board, or any other GOVERNMENTAL AUTHORITY against the BORROWER or any of the BORROWER'S SUBSIDIARIES by, on behalf of or with respect to any Worker which would reasonably be expected to, individually or in the aggregate, result in a MATERIAL ADVERSE EVENT.

Section 4.14.2. The BORROWER and the BORROWER'S SUBSIDIARIES are in compliance in all material respects with all LAWS related to the terms and conditions of employment or retention of its Workers, including but not limited to wages and other compensation, overtime requirements, classification of employees and independent contractors under federal and state laws, hours of work, leaves of absence, equal opportunity, immigration, occupational health and safety and workers' compensation.

Section 4.15. Employee Benefit Plans.

Section 4.15.1. Compliance. The BORROWER and its ERISA AFFILIATES are in compliance in all material respects with all applicable provisions of ERISA and the regulations thereunder and of the CODE with respect to all EMPLOYEE BENEFIT PLANS.

Section 4.15.2. Absence Of Termination Event. No TERMINATION EVENT has occurred or is reasonably expected to occur with respect to any GUARANTEED PENSION PLAN.

Section 4.15.3. Actuarial Value. The actuarial present value (as defined in Section 4001 of ERISA) of all benefit commitments (as defined in Section 4001 of ERISA) under each GUARANTEED PENSION PLAN does not exceed the assets of that plan, or if the actuarial present value of all benefit commitments under a GUARANTEED PENSION PLAN does exceed the assets of that plan, such information is set forth in the BORROWER'S financial statements delivered to the LENDER.

Section 4.15.4. No Withdrawal Liability. Neither the BORROWER nor any of its ERISA AFFILIATES has incurred or reasonably expects to incur any withdrawal liability under ERISA in connection with any MULTIEMPLOYER PLANS.

Section 4.16. Environmental Conditions. Neither the conduct nor operation of the BORROWER'S business, nor any condition of any real property currently owned, leased or operated by the BORROWER or any of the BORROWER'S SUBSIDIARIES nor, to the knowledge of the BORROWER , any condition of any real property owned, leased or operated after January 1, 2014 but no longer owned, leased or operated by the BORROWER or any of the BORROWER'S SUBSIDIARIES, is, or to the knowledge of the BORROWER , has since January 1, 2014 been, in material violation of applicable ENVIRONMENTAL LAWS. None of BORROWER nor any SUBSIDIARY has received or been subject to any written notice, proceeding, written order or written information request from any PERSON stating or alleging that the BORROWER or the BORROWER'S SUBSIDIARIES or any of their respective current or former properties or assets (but with respect to former properties or assets, only those properties or assets owned or operated after January 1, 2014) have been or are in violation of any applicable ENVIRONMENTAL LAW or are otherwise liable pursuant to any applicable ENVIRONMENTAL LAW, excluding any such matters that have been fully resolved with no further liability to the BORROWER or the BORROWER'S SUBSIDIARY. To the knowledge of the BORROWER, there have been no spills, disposals or releases of hazardous materials on, at, under, or migrating from any real property currently owned, leased or operated by the BORROWER or the BORROWER'S SUBSIDIARY, or on, at, under or migrating from any real property owned, leased or operated after January 1, 2014 but no longer owned, leased or operated by the BORROWER or the BORROWER'S SUBSIDIARIES, that is currently or was previously subject to any investigation, remediation or monitoring with respect to hazardous materials, excluding any such matters that have been fully resolved or are not reasonably likely to result in material liability. The BORROWER has provided the LENDER with all material written reports in the possession of the BORROWER or the BORROWER'S SUBSIDIARY related to the BORROWER'S business liability arising from applicable ENVIRONMENTAL LAWS.

Section 4.17. Deposit and Disbursement Accounts. Schedule 4.17 lists all banks and other financial institutions at which the BORROWER maintains deposit or other accounts as of the CLOSING, and such Schedule correctly identifies the name, address and telephone number of each depository, the name in which the account is held, a brief description of the purpose or type of the account, and the complete account number therefore.

Section 4.18. Agreements and Other Documents. As of the CLOSING, the BORROWER has provided to the LENDER or its counsel materially accurate and complete copies (or summaries) of all of the following agreements or documents to which it is subject and each of which is listed in Schedule 4.18: (a) supply agreements and purchase agreements not terminable by the BORROWER within sixty (60) days following written notice issued by the BORROWER and involving transactions in excess of Two Hundred Fifty Thousand Dollars ($250,000.00) per annum; (b) leases of equipment having a remaining term of one (1) year or longer and requiring aggregate rental and other payments in excess of Fifty Thousand Dollars ($50,000.00) per annum; (c) licenses and permits held by the BORROWER, the absence of which could be reasonably likely to result in a MATERIAL ADVERSE EVENT; (d) instruments and documents evidencing any INDEBTEDNESS of the BORROWER in excess of Fifty Thousand Dollars ($50,000.00) and any LIEN granted by the BORROWER with respect thereto that will remain in effect after the CLOSING other than those agreements in which the LENDER is a party; and (e) franchise agreements and instruments and agreements evidencing the issuance of any equity securities, warrants, rights or options to purchase equity securities of the BORROWER.

Section 4.19. OFAC Matters. Neither the BORROWER, any SUBSIDIARIES or, to the best of the BORROWER'S knowledge, its AFFILIATES (i) is a SANCTIONED PERSON or (ii) does business in a SANCTIONED COUNTRY or with a SANCTIONED PERSON in violation of the economic sanctions of the United States administered by OFAC. The proceeds of the LOAN will not be used to fund any operation in, finance any investments or activities in or make any payments to, a SANCTIONED PERSON or a SANCTIONED COUNTRY. Neither the BORROWER, any SUBSIDIARY or, to the best of the BORROWER'S knowledge, any AFFILIATES of the foregoing is a PROHIBITED PERSON. Neither the BORROWER nor any of its SUBSIDIARIES or AFFILIATES, to its knowledge, has engaged directly or indirectly in any transaction that evades or avoids, or has the purpose of evading or avoiding, or violates in any material respect the requirements or prohibitions set forth in the ANTI-TERRORISM ORDER or the USA Patriot Act. Neither the making of the LOAN hereunder or the contemplated use of proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department or any enabling legislation or executive order relating thereto. The BORROWER does not engage in any dealings or transactions with a PERSON described or designated in the Specially Designation Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the ANTI-TERRORISM ORDER ("Designated Person") in violation of any LAW. The BORROWER is in compliance, in all material respects, with the USA Patriot Act.

## ARTICLE 5.
## AFFIRMATIVE COVENANTS

The BORROWER agrees during the term of this AGREEMENT and while any OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) are outstanding and unpaid to do and perform (and to cause each of its SUBSIDIARIES to do and perform as if referenced herein) each of the acts and promises set forth in this Article 5:

Section 5.1. Payment. All OBLIGATIONS shall be paid in full when and as due.

Section 5.2. Insurance. The BORROWER shall obtain and maintain such insurance coverages as are reasonable and customary for holding companies engaged in activities similar to the activities of the BORROWER..

Section 5.3. Books And Records. The BORROWER shall notify the LENDER in writing if the BORROWER materially modifies or changes its method of accounting or enters into, modifies, or

terminates any material agreement presently existing, or at any time hereafter entered into with any third party accounting firm for the preparation and/or storage of the BORROWER'S accounting records.

Section 5.4. Collection Of Accounts; Sale Of inventory. The BORROWER shall only collect its RECEIVABLES and sell its INVENTORY in the ordinary course of the BORROWER'S business.

Section 5.5. Notice Of Litigation And Proceedings. The BORROWER shall give prompt notice to the LENDER of any action, suit, citation, violation, direction, notice or proceeding before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting the BORROWER, or the assets or properties thereof, which, if determined adversely to the BORROWER: (a) could require the BORROWER to pay over more than Fifty Thousand Dollars ($50,000.00) or deliver assets the value of which exceeds that sum (whether or not the claim is considered to be covered by insurance); or (b) could reasonably be expected to have a material adverse effect upon the financial condition or business operations of the BORROWER

Section 5.6. Payment Of Liabilities To Third Persons. The BORROWER shall pay when and as due, or within applicable grace periods, all material liabilities due to third persons, except when the amount thereof is being contested in good faith by appropriate proceedings and with adequate reserves therefore being set aside by the BORROWER.

Section 5.7. Notice Of Change Of Business Location. The BORROWER shall notify the LENDER thirty (30) days in advance of: (a) any change in the location of its existing offices or place of business; (b) the establishment of any new, or the discontinuation of any existing, material place of business; and (c) any change in or addition to the locations at which the COLLATERAL is kept. Prior to moving any COLLATERAL (other than fixtures) with a value in excess of $100,000 to any location not owned by the BORROWER (other than deliveries to ACCOUNT DEBTORS of sold or leased items), the BORROWER shall make commercially reasonable efforts to obtain and deliver to the LENDER an agreement, in form and substance reasonably acceptable to the LENDER, pursuant to which the owner of such location shall: (a) subordinate any rights which it may have, or thereafter may obtain, in any of the COLLATERAL to the rights and security interests of the LENDER in the COLLATERAL; and (b) allow the LENDER access to the COLLATERAL in order to remove the COLLATERAL from such location. In the event any COLLATERAL with a value in excess of $100,000 is stored with a warehousemen or other bailee, and such COLLATERAL is evidenced by a negotiable document of title, the BORROWER shall immediately deliver the document of title to the LENDER.

Section 5.8. Payment Of Taxes. The BORROWER shall pay or cause to be paid when and as due all federal and all material local taxes, assessments and charges or levies imposed upon it or on any of its property or which it is required to withhold and pay over to the taxing authority or which it must pay on its income, except where contested in good faith, by appropriate proceedings and at its own cost and expense; provided, however, that the BORROWER shall not be deemed to be contesting in good faith by appropriate proceedings unless: (a) such proceedings operate to prevent the taxing authority from collecting the taxes, assessments or charges; (b) the COLLATERAL is not subject to sale, forfeiture or loss during such proceedings; (c) the BORROWER'S contest does not subject the LENDER to any claim by the taxing authority or any other person; (d) the BORROWER establish appropriate reserves, in accordance with prudent business practices, for the payment of all taxes, assessments, charges, levies, legal fees, court costs and other expenses for which the BORROWER would be liable if unsuccessful in the contest; and (e) at the conclusion of the proceedings, the BORROWER promptly pay all amounts determined to be payable, including but not limited to all taxes, assessments, charges, levies, legal fees and court costs.

Section 5.9. Rights of Inspections, Field Examination, Etc. The BORROWER shall permit

authorized representatives of the LENDER to visit and inspect the properties of the BORROWER, to review, audit, check and inspect the COLLATERAL with reasonably prior notice and during normal business hours (unless there is a continuing EVENT OF DEFAULT, in which no notice shall need to be provided), to review, audit, check and inspect the BORROWER'S other books of record with reasonably prior notice and during normal business hours (unless there is a continuing EVENT OF DEFAULT, in which no notice shall need to be provided) and to make abstracts and photocopies thereof, and to discuss the affairs, finances and accounts of the BORROWER with the officers, directors, employees and other representatives of the BORROWER and its accountants, all with reasonably prior notice and at such times during normal business hours (unless there is a continuing EVENT OF DEFAULT, in which no notice shall need to be provided) and other reasonable times and as often as the LENDER may reasonably request; provided, however, that unless an EVENT OF DEFAULT shall have occurred and be continuing, the BORROWER shall not be liable for any LENDER EXPENSES incurred for more than two (2) such reviews, audits, inspections or other actions taken or made pursuant to this Section per FISCAL YEAR. Except as otherwise provided herein, any and all costs and expenses incurred by, or on behalf of, the LENDER in connection with the conduct of any of the foregoing shall be part of the LENDER EXPENSES and shall be payable to the LENDER upon demand.

Section 5.10. Notice Of Events Affecting Collateral; Compromise Of Receivables; Records. The BORROWER shall promptly report to the LENDER all customer credits and all returns, repossessions and recoveries of INVENTORY, in each case in an amount or with a value in excess of Fifty Thousand Dollars ($50,000.00).

Section 5.10.1. The BORROWER shall not, without the LENDER'S prior written consent, settle or adjust any dispute or claim, or grant any discount (except ordinary trade discounts), credit or allowance or accept any return of merchandise, except in the ordinary course of its business.

Section 5.10.2. Upon the occurrence and during the continuance of an EVENT OF DEFAULT, the LENDER may (i) settle or adjust disputes or claims directly with ACCOUNT DEBTORS for amounts and upon terms which it considers in good faith to be commercially reasonable and (ii) notify ACCOUNT DEBTORS on the BORROWER'S RECEIVABLES that such RECEIVABLES have been assigned to the LENDER and that payments in respect thereof shall be made directly to the LENDER.

Section 5.10.3. Where the BORROWER sell goods or services to a customer which also sells goods or services to it or which has other legitimate claims against it, the BORROWER will so advise the LENDER immediately to permit the LENDER to establish a reserve therefore.

Section 5.10.4. The BORROWER hereby irrevocably authorizes and appoints the LENDER as its attorney-in-fact, at the BORROWER'S sole cost and expense, to exercise, solely upon the occurrence and during the continuance of an EVENT OF DEFAULT, all of the following powers, which being coupled with an interest, shall be irrevocable until all of the OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) have been paid in full: (A) to receive, take, endorse, sign, assign and deliver, all in the name of the LENDER or the BORROWER, any and all checks, notes, drafts, and other documents or instruments relating to the COLLATERAL; (B) to receive, open and dispose of all mail addressed to the BORROWER and to notify postal authorities to change the address for delivery thereof to such address as the LENDER may designate; and (C) to take or bring, in the name of the LENDER or the BORROWER, all steps, actions, suits or proceedings deemed by the LENDER necessary or desirable to enforce or effect collection of the BORROWER'S RECEIVABLES or file and sign the BORROWER'S name on a proof of claim in bankruptcy or similar document against any obligor of the BORROWER. The BORROWER shall maintain a record of its electronic CHATTEL PAPER that, if in excess of One Hundred Thousand Dollars ($100,000.00), identifies the LENDER as the assignee thereof and otherwise in a manner such that the

LENDER has control over such CHATTEL PAPER for purposes of the UCC.

Section 5.11. Documentation Of Collateral. The BORROWER agrees that upon the request of the LENDER, the BORROWER will provide the LENDER with: (a) written statements or schedules identifying and describing any material portion of the COLLATERAL, and all additions, substitutions, and replacements thereof, in reasonable detail; (b) copies of ACCOUNT DEBTORS' material invoices or billing statements; (c) evidence of shipment or delivery of material goods or merchandise to or performance of material services for ACCOUNT DEBTORS; and (d) such other schedules and information as the LENDER reasonably may reasonably require with respect to the COLLATERAL. The failure of the BORROWER to give any of such items to the LENDER shall not affect, terminate, modify or otherwise limit the LENDER'S security interests in the COLLATERAL. The LENDER shall have the right, upon the occurrence and during the continuance of an EVENT OF DEFAULT, to verify the eligibility of the BORROWER'S RECEIVABLES, including obtaining verification of the RECEIVABLES directly from ACCOUNT DEBTORS.

Section 5.12. Reporting Requirements. The BORROWER shall submit the following items to the LENDER:

Section 5.12.1. SEC Filings. Promptly upon receipt or transmission thereof, (a) all letters of comment or material correspondence sent to the BORROWER or any of its SUBSIDIARIES by any securities exchange or the Securities and Exchange Commission ("SEC") in relation to the affairs of the BORROWER or any of its SUBSIDIARIES and (b) all regular and periodic reports and all registration statements and prospectuses, if any, filed by the BORROWER or any of its SUBSIDIARIES with any securities exchange or with the SEC or any governmental authority succeeding to any of its functions.

Section 5.12.2. Management Letters. Promptly upon receipt thereof, the BORROWER shall submit to the LENDER copies of any material reports submitted to the BORROWER or any SUBSIDIARY by independent certified public accountants in connection with the examination of the financial statements of the BORROWER or any SUBSIDIARY made by such accountants.

Section 5.12.3. Management Changes. The BORROWER shall notify the LENDER immediately of any changes in the personnel holding the positions of either President/Chief Executive Officer or Chief Financial Officer of the BORROWER.

Section 5.12.4. General Information. In addition to the items set forth in subparagraphs 5.12.1 through 5.12.3 above, the BORROWER agrees to submit to the LENDER such other information respecting the condition or operations, financial or otherwise, of the BORROWER as the LENDER may reasonably request from time to time.

Section 5.13. Employee Benefit Plans And Guaranteed Pension Plans. The BORROWER will, and will cause each of its ERISA AFFILIATES that it controls to: (a) comply in all material respects with all requirements imposed by ERISA and the CODE, applicable from time to time to any of its GUARANTEED PENSION PLANS or EMPLOYEE BENEFIT PLANS; (b) make full payment when due of all amounts which, under the provisions of EMPLOYEE BENEFIT PLANS or under applicable LAW, are required to be paid as contributions thereto; (c) not permit to exist any violation of the funding standards of Sections 430 and 436 of the CODE and not permit circumstances to exist that are reasonably likely to result in the imposition of a lien pursuant to Section 430(k) of the Internal Revenue Code or Section 303(k) of ERISA; (d) file on a timely basis all material reports, notices and other filings required by any governmental agency with respect to any of its EMPLOYEE BENEFITS PLANS; (e) make any payments to MULTIEMPLOYER PLANS required to be made under any agreement relating to such

MULTIEMPLOYER PLANS, or under any LAW pertaining thereto; (f) not amend or otherwise alter any GUARANTEED PENSION PLAN if the effect would be to cause the actuarial present value of all benefit commitments under any GUARANTEED PENSION PLAN to be less than the current value of the assets of such GUARANTEED PENSION PLAN allocable to such benefit commitments; (g) furnish to all participants, beneficiaries and employees under any of the EMPLOYEE BENEFIT PLANS, within the periods prescribed by LAW, all reports, notices and other information to which they are entitled under applicable LAW; and (h) take no action which would cause any of the EMPLOYEE BENEFIT PLANS to fail to meet any qualification requirement imposed by the CODE. As used in this Section, the terms "actuarial present value", "benefit commitments" and "current value" have the meaning specified in Section 4001 of ERISA.

Section 5.14. Maintenance Of Fixed Assets. The BORROWER shall (i) maintain and preserve all of its material property necessary to its business in a state of good working order and condition, ordinary wear and tear excepted and (ii) comply, and cause each of its SUBSIDIARIES to comply, at all times with the provisions of all leases to which it is a party as lessee or under which it occupies property, so as to prevent any loss or forfeiture thereof or thereunder, except to the extent any such noncompliance could not reasonably be expected to be a MATERIAL ADVERSE EVENT.

Section 5.15. Federal Assignment Of Claims Act. The BORROWER shall notify the LENDER if any RECEIVABLE constituting and ELIGIBLE ACCOUNT arises out of a contract with the United States of America, or any department, agency or instrumentality thereof, and, to the extent such contract is material to the BORROWER'S business or operations, if requested by the LENDER, shall execute all documents or instruments and shall take all reasonable steps or actions reasonably required by the LENDER so that all monies due or to become due under such contract are assigned to the LENDER and notice given thereof to the United States in accordance with the requirements of the Federal Assignment of Claims Act, as amended.

Section 5.16. Compliance With Laws. The BORROWER shall, and shall cause its SUBSIDIARIES to, comply in all material respects with all applicable LAWS, including, but not limited to, all LAWS with respect to: (a) all restrictions, specifications, or other requirements pertaining to products that it sells or to the services it performs; (b) the conduct of its business; (c) the use, maintenance, and operation of the real and personal properties owned or leased by it in the conduct of its business; and (d) the obtaining and maintenance of all necessary and material licenses, franchises, permits and governmental approvals, registrations and exemptions necessary to engage in its business. Without limiting the generality of the preceding sentence, the BORROWER shall: (i) comply in all material respects with, and take commercially reasonable steps to obtain such compliance by all tenants and subtenants, if any, with, all applicable ENVIRONMENTAL LAWS and obtain and comply in all material respects with and maintain, and take commercially reasonable steps so that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable ENVIRONMENTAL LAWS; (ii) conduct and complete all material investigations, studies, sampling and testing, and all material remedial, removal and other actions required under ENVIRONMENTAL LAWS, and promptly comply with all lawful orders and directives of any GOVERNMENTAL AUTHORITY regarding ENVIRONMENTAL LAWS; and (iii) defend, indemnify and hold harmless the LENDER, and its employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of, noncompliance with or liability under any ENVIRONMENTAL LAWS applicable to the operations of the BORROWER, or any orders, requirements or demands of governmental authorities related thereto, including, without limitation, reasonable attorney's and consultant's fees, investigation and laboratory fees, response costs, court costs and litigation expenses, except to the extent that any of the foregoing directly result from the gross negligence or willful misconduct of the party seeking indemnification

therefore. The BORROWER agrees to promptly notify the LENDER of any RELEASE of a REGULATED SUBSTANCE on, to or from any FACILITY in material violation of any ENVIRONMENTAL LAWS or of any notice received by the BORROWER from a GOVERNMENTAL AUTHORITY that the BORROWER or any FACILITY is not in compliance with any ENVIRONMENTAL LAWS.

Section 5.17. Preservation of Existence, Etc. The BORROWER shall maintain and preserve, and cause each of its SUBSIDIARIES to maintain and preserve, its existence, rights and privileges, and become or remain, and cause each of its SUBSIDIARIES to become or remain, duly qualified and in good standing in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary.

## ARTICLE 6.
## NEGATIVE COVENANTS

The BORROWER covenants while any OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) are outstanding and unpaid not to do or to permit to be done or to occur (and cause each of its SUBSIDIARIES not to do or to permit to be done or to occur as if referenced herein) any of the acts or occurrences set forth in this Article 6 without the prior written authorization of the LENDER.

Section 6.1. No Change Of Name, Merger, Etc. The BORROWER shall not change its name or enter into any merger, consolidation, reorganization or recapitalization.

Section 6.2. No Sale Or Transfer Of Assets. The BORROWER shall not sell, transfer, lease or otherwise dispose of all or any part of the COLLATERAL or all or any part of its other assets, except that: (a) INVENTORY may be sold to ACCOUNT DEBTORS in the ordinary course of the BORROWER'S business; (b) payments may be made to trade creditors and vendors in the ordinary course of business; (c) transfers consisting of the granting of PERMITTED LIENS, investments permitted under Section 6.7, or RESTRICTED PAYMENTS permitted under Section 6.5; (d) the granting of licenses of over the counter software and licenses for the use of INTELLECTUAL PROPERTY entered into in the ordinary course of business; (e) transfers of EQUIPMENT to the extent that such EQUIPMENT is exchanged for credit against the purchase price of similar replacement EQUIPMENT or the proceeds of such transfer are applied against the purchase price of such replacement EQUIPMENT; (f) transfers of cash and cash equivalents in the ordinary course of business; (g) transfers of other property (excluding RECEIVABLES) having a fair market value not to exceed Fifty Thousand Dollars ($50,000.00) in the aggregate for any FISCAL YEAR; and (h) obsolete EQUIPMENT may be sold or otherwise disposed of in the ordinary course of the BORROWER'S business.

Section 6.3. No Encumbrance Of Assets. The BORROWER shall not mortgage, pledge, grant or permit to exist a security interest in or LIEN upon any of its assets of any kind, now owned or hereafter acquired, except for PERMITTED LIENS.

Section 6.4. No Indebtedness. The BORROWER shall not incur, create, assume, or permit to exist any INDEBTEDNESS except PERMITTED INDEBTEDNESS.

Section 6.5. Restricted Payments. The BORROWER shall not make any RESTRICTED PAYMENTS other than (a) any dividends payable solely in CAPITAL STOCK and (b) repurchases pursuant to the terms of employee stock purchase plans, employee restricted stock agreements, stockholder rights plans, director or consultant stock option plans, or similar plans, unless, in each case

(*i.e.*, clauses (a) and (b)), if an EVENT OF DEFAULT has occurred and is continuing or would result therefrom after giving pro forma effect thereto.

Section 6.6. Transactions With Affiliates. The BORROWER shall not make any contract for the purchase of any items from any AFFILIATE or the performance of any services (including employment services) by any AFFILIATE, unless such contract is on terms which fairly represent fair and reasonable terms that could be obtained in arm's length transactions of a similar nature with independent third PERSONS.

Section 6.7. Loans, Investments And Sale-Leasebacks. The BORROWER shall not make any advance, guarantee of obligation, loan, investment, or material acquisition of assets or enter into any sale-leaseback transactions other than: (a) investments in the BORROWER; (b) investments(including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business; (c) any conversion of RECEIVABLES into an INSTRUMENT in contemplation of facilitating the collection thereof; (d) investments in the form of Acquisitions permitted pursuant to Section 6.8; and (e) loans and advances to employees and officers of the BORROWER for travel and moving expenses in the ordinary course of business.

Section 6.8. No Alteration Of Structure Or Operations. *RESERVED*

Section 6.9. Unpermitted Uses Of Loan Proceeds. The BORROWER shall not use any part of the proceeds of the LOAN hereunder for any purpose which constitutes a violation of, or is inconsistent with, regulations of the Board of Governors of the Federal Reserve System, including without limitation, the purchase or carrying of (or refmancing of indebtedness originally incurred to purchase or carry) margin securities.

Section 6.10. Changes In Fiscal Year. The BORROWER shall not change its FISCAL YEAR.

Section 6.11. Limitation On Issuance Of Equity Interests. The BORROWER shall not issue or sell any equity interest in the BORROWER that, by its terms or by the terms of any security into which it is convertible or exchangeable, is, or upon the happening of an event or passage of time would be: (a) convertible or exchangeable into a liability of the BORROWER; or (b) required to be redeemed or repurchased, including at the option of the holder, in whole or in part, or has, or upon the happening of an event or passage of time would have, a redemption or similar payment due.

Section 6.12. Modifications of Indebtedness, Organizational Documents and Certain Other Agreements; Etc. The BORROWER shall not (i) amend, modify or otherwise change (or permit the amendment, modification or other change in any manner of) any of the provisions of any of its or its SUBSIDIARIES' INDEBTEDNESS (other than the OBLIGATIONS) or of any instrument or agreement (including any purchase agreement, indenture, loan agreement or security agreement) relating to any such INDEBTEDNESS if such amendment, modification or change would shorten the final maturity or average life to maturity of, or require any payment to be made earlier than the date originally scheduled on, such INDEBTEDNESS, would increase the interest rate applicable to such INDEBTEDNESS, would change the subordination provisions, if any, of such INDEBTEDNESS, or would otherwise be materially adverse to LENDER or the issuer of such INDEBTEDNESS in any respect, (ii) except for the OBLIGATIONS, and except as permitted pursuant to Section 6.5, make any voluntary or optional payment, prepayment, redemption, defeasance, sinking fund payment or other acquisition for value of any of its or its SUBSIDIARIES' INDEBTEDNESS (including by way of depositing money or securities with the trustee therefor before the date required for the purpose of paying any portion of such INDEBTEDNESS when due), or refund, refinance, replace or exchange any other INDEBTEDNESS for

any such INDEBTEDNESS (except to the extent such INDEBTEDNESS is otherwise expressly permitted by the definition of "PERMITTED INDEBTEDNESS"), or make any payment, prepayment, redemption, defeasance, sinking fund payment or repurchase of any outstanding INDEBTEDNESS (other than any INDEBTEDNESS secured by any PERMITTED LIEN on any asset (other than INDEBTEDNESS assumed by the purchaser of such asset) which is required to be, and is, repaid in connection with such disposition) as a result of any asset sale, change of control, issuance and sale of debt or equity securities or similar event, or give any notice with respect to any of the foregoing, or (iii) except for technical changes and changes that are purely advantageous to BORROWER, amend, modify or otherwise change its articles of organization or operating agreement (or other similar organizational or formation documents), including by the filing or modification of any certificate of designation, or any agreement or arrangement entered into by it, with respect to any of its CAPITAL STOCK (including any shareholders' agreement), or enter into any new agreement with respect to any of its CAPITAL STOCK that is materially adverse to LENDER.

Section 6.13. Certain Agreements. The BORROWER shall not agree to any amendment or other change to or waiver of any of its rights under any MATERIAL CONTRACT, in each case that could reasonably be expected to be a MATERIAL ADVERSE EVENT.

## ARTICLE 7.
## EVENTS OF DEFAULT

The occurrence of any of the following events shall constitute an EVENT OF DEFAULT.

Section 7.1. Failure To Pay. The failure by the BORROWER (a) to pay any principal when due and payable or (b) to pay any interest or any of the other OBLIGATIONS within three (3) BUSINESS DAYS after such OBLIGATIONS are due and payable.

Section 7.2. Violation Of Covenants. The failure by the BORROWER or SUBSIDIARY (a) to perform or a violation of any of the covenants or agreements provided in Sections 5.4, 5.5, 5.10, 5.12.1, 5.12.2, 5.12.3, Article VI of this AGREEMENT or (b) to perform or a violation of any of the other covenants or agreements contained in any section of this AGREEMENT (other than those set forth in clause (a) above or any other Section of this Article VII) or in any of the other LOAN DOCUMENTS and such default shall have continued unremedied, uncured or unwaived for a period of fifteen (15) BUSINESS DAYS after the earlier of (i) a RESPONSIBLE OFFICER obtains, or could reasonably be expect to have obtained, knowledge of the occurrence of such default and (ii) receipt by the BORROWER of written notice from the LENDER of such default.

Section 7.3. Representation Or Warranty. The failure of any representation or warranty made by the BORROWER to be true in any material respect, as of the date made.

Section 7.4. Judgments. A LOAN PARTY or any SUBSIDIARY shall suffer final judgments for the payment of money aggregating in excess of One Hundred Thousand Dollars ($100,000.00) and shall not discharge the same within a period of thirty (30) days unless, pending further proceedings, execution has not been commenced or if commenced has been effectively stayed.

Section 7.5. Levy By Judgment Creditor. A judgment creditor of a LOAN PARTY shall obtain possession of any portion of the COLLATERAL by any means, including but not limited to levy, distraint, replevin or self-help, and the LOAN PARTIES shall not remedy same within thirty (30) days thereof; or a writ of garnishment is served on the LENDER relating to any of the DEPOSIT ACCOUNTS of the BORROWER maintained by the LENDER.

Section 7.6. Cross Default; Failure To Pay Liabilities. A (i) default under the Amended And Restated Loan And Security Agreement of even date herewith between the LENDER and Faneuil, Inc. and Faneuil Toll Operations LLC, as amended from time to time, which default is not cured within any applicable grace or cure period, or (ii) LOAN PARTY shall fail to pay any of its debts, in an aggregate amount in excess of One Hundred Thousand Dollars ($100,000.00), due the LENDER of any other PERSON and such failure shall continue beyond any applicable grace period, or any default under any agreement or instrument relating to such debt or any other event shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such debt; or any such debt shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled required prepayment), redeemed, purchased, or defeased or an offer to prepay, redeem, purchase or defease such debt shall be required to be made, in each case, prior to the stated maturity thereto.

Section 7.7. Involuntary Insolvency Proceedings. The institution of involuntary INSOLVENCY PROCEEDINGS against a LOAN PARTY and the failure of any such INSOLVENCY PROCEEDINGS to be dismissed before the earliest to occur of: (a) the date which is ninety (90) days after the institution of such INSOLVENCY PROCEEDINGS; (b) the entry of any order for relief in the INSOLVENCY PROCEEDING or any order adjudicating a LOAN PARTY insolvent; or (c) the impairment (as to validity, priority or otherwise) under such INSOLVENCY PROCEEDING of any security interest or LIEN of the LENDER in any of the COLLATERAL.

Section 7.8. Voluntary Insolvency Proceedings. The commencement by a LOAN PARTY of INSOLVENCY PROCEEDINGS.

Section 7.9. Material Adverse Event. The occurrence of a MATERIAL ADVERSE EVENT.

Section 7.10. ERISA. If any TERMINATION EVENT shall occur and as of the date thereof or any subsequent date, the sum of the various liabilities of the BORROWER and its ERISA AFFILIATES (such liabilities to include, without limitation, any liability to the Pension Benefit Guaranty Corporation (or any successor thereto) or to any other party under Sections 4062, 4063, or 4064 of ERISA or any other provision of LAW and to be calculated after giving effect to the tax consequences thereof) resulting from or otherwise associated with such TERMINATION EVENT exceeds One Hundred Thousand Dollars ($100,000.00); or the BORROWER or any of its ERISA AFFILIATES as an employer under any MULTIEMPLOYER PLAN shall have made a complete or partial withdrawal from such MULTIEMPLOYER PLANS and the plan sponsors of such MULTIEMPLOYER PLANS shall have notified such withdrawing employer that such employer has incurred a withdrawal liability requiring a payment in an amount exceeding One Hundred Thousand Dollars ($100,000.00).

Section 7.11. Change of Control. The occurrence of a CHANGE OF CONTROL in the BORROWER.

Section 7.12. Indictment Of Borrower. The indictment of the BORROWER for a felony under any federal, state or other LAW.

Section 7.13. Injunction. The issuance of any injunction against the BORROWER which enjoins or restrains the BORROWER from continuing to conduct any material part of the BORROWER'S business affairs, unless such injunction could not reasonably be expected to have a materially adverse effect on BORROWER'S business or operations.

## ARTICLE 8.
## RIGHTS AND REMEDIES ON THE OCCURRENCE AND DURING THE CONTINUANCE OF AN EVENT OF DEFAULT

Section 8.1. Lender's Specific Rights And Remedies. In addition to all other rights and remedies provided by LAW and the LOAN DOCUMENTS, upon the occurrence and during the continuance of any EVENT OF DEFAULT, the LENDER may: (a) accelerate and call immediately due and payable all or any part of the OBLIGATIONS; (b) seek specific performance or injunctive relief to enforce performance of the undertakings, duties, and agreements provided in the LOAN DOCUMENTS, whether or not a remedy at law exists or is adequate; and (c) exercise any rights of a secured creditor under the UCC, including the right to take possession of the COLLATERAL without the use of judicial process or hearing of any kind and the right to require the BORROWER to assemble the COLLATERAL at such place as the LENDER may specify.

Section 8.2. Automatic Acceleration. Upon the occurrence and during the continuance of an EVENT OF DEFAULT as described in Sections 7.7 or 7.8 of this AGREEMENT, the OBLIGATIONS shall be automatically accelerated and due and payable without any notice, demand or action of any type on the part of the LENDER.

Section 8.3. Sale Of Collateral. In addition to any other remedy provided herein, upon the occurrence during the continuance of an EVENT OF DEFAULT, the LENDER, in a commercially reasonable fashion, may sell at public or private sale or otherwise realize upon, the whole or, from time to time, any part of all COLLATERAL which is personal property, or any interest which the BORROWER may have therein. Pending any such action, the LENDER may collect and liquidate the COLLATERAL. After deducting from the proceeds of sale or other disposition of such COLLATERAL all expenses, including all expenses for legal services, the LENDER shall apply such proceeds toward the satisfaction of the OBLIGATIONS. Any remainder of the proceeds after satisfaction in full of the OBLIGATIONS shall be distributed as required by applicable LAW. Notice of any sale or other disposition (other than sales or other dispositions of COLLATERAL which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market) shall be given to the BORROWER not less than ten (10) calendar days before the time of any intended public sale or of the time after which any intended private sale or other disposition of the COLLATERAL is to be made, which the BORROWER hereby agree shall be commercially reasonable notice of such sale or other disposition. The BORROWER shall assemble, or shall cause to be assembled, at the BORROWER'S own expense, the COLLATERAL at such place or places as the LENDER shall designate. At any such sale or other disposition, the LENDER may, to the extent permissible under applicable law, purchase the whole or any part of the COLLATERAL, free from any right of redemption on the part of the BORROWER, which right is hereby waived and released to the extent lawfully permitted. Without limiting the generality of any of the rights and remedies conferred upon the LENDER under this Section, the LENDER may, upon the occurrence and during the continuance of any EVENT OF DEFAULT, to the full extent permitted by applicable law: (a) enter upon the premises of the BORROWER, exclude therefrom the BORROWER or any PERSON connected therewith, and take immediate possession of the COLLATERAL, either personally or by means of a receiver appointed by a court of competent jurisdiction, using all necessary force to do so; (b) at the LENDER'S option, use, operate, manage, and control the COLLATERAL in any lawful manner; (c) collect and receive all income, revenue, earnings, issues, and profits therefrom; and (d) maintain, alter or remove the COLLATERAL as the LENDER may determine in the LENDER'S discretion.

Section 8.4. Specific Rights Regarding Collateral. In addition to all other rights and remedies provided hereunder or as shall exist at law or in equity from time to time, the LENDER may (but shall be under no obligation to), upon the occurrence and during the continuance of an EVENT OF DEFAULT, without notice to the BORROWER, and the BORROWER hereby irrevocably appoints the LENDER as its attorney in fact, with power of substitution, in the name of the LENDER or in the name of the BORROWER or otherwise, for the use and benefit of the LENDER, but at the cost and expense of the BORROWER and without notice to the BORROWER:

Section 8.4.1. request any ACCOUNT DEBTOR obligated on any of the ACCOUNTS to make payments thereon directly to the LENDER, with the LENDER taking control of the cash and non-cash proceeds thereof;

Section 8.4.2. compromise, extend or renew any of the COLLATERAL or deal with the same as it may deem advisable;

Section 8.4.3. make exchanges, substitutions or surrenders of all or any part of the COLLATERAL;

Section 8.4.4. copy, transcribe, or remove from any place of business of the BORROWER all books, records, ledger sheets, correspondence, invoices and documents, relating to or evidencing any of the COLLATERAL or without cost or expense to the LENDER, make such use of the BORROWER'S place(s) of business as may be reasonably necessary to administer, control and collect the COLLATERAL;

Section 8.4.5. repair, alter or supply goods if necessary to fulfill in whole or in part the purchase order of any ACCOUNT DEBTOR;

Section 8.4.6. demand, collect, receipt for and give renewals, extensions, discharges and releases of any of the COLLATERAL;

Section 8.4.7. institute and prosecute legal and equitable proceedings to enforce collection of, or realize upon, any of the COLLATERAL;

Section 8.4.8. settle, renew, extend, compromise, compound, exchange or adjust claims in respect of any of the COLLATERAL or any legal proceedings brought in respect thereof;

Section 8.4.9. endorse or sign the name of the BORROWER upon any items of payment, certificates of title, instruments, securities, stock powers, documents, documents of title, assignments, notices, or other writing relating to or part of the COLLATERAL and on any proof of claim in bankruptcy against an ACCOUNT DEBTOR;

Section 8.4.10. notify the post office authorities to change the address for the delivery of mail to the BORROWER to such address or post office box as the LENDER may designate and receive and open all mail addressed to the BORROWER; and

Section 8.4.11. take any other action necessary or beneficial to realize upon or dispose of the COLLATERAL or to carry out the terms of this AGREEMENT.

Section 8.5. Certain Additional Actions Regarding Intellectual Property. If any EVENT OF DEFAULT shall have occurred and be continuing, then upon the written demand of the LENDER, the BORROWER shall execute and deliver to the LENDER an assignment or assignments in favor of the

LENDER, its designee, or in blank, of the BORROWER'S rights in the INTELLECTUAL PROPERTY COLLATERAL, in recordable form with respect to those items of the INTELLECTUAL PROPERTY COLLATERAL consisting of registered or applied-for PATENTS, TRADEMARKS, COPYRIGHTS and/or OTHER PROPRIETARY RIGHTS, and such other documents as are necessary or appropriate to carry out the intent and purposes hereof.

Section 8.6. Rights Regarding Intellectual Property After Event Of Default. Upon the occurrence and during the continuance of any EVENT OF DEFAULT, the LENDER shall have the right, but shall in no way be obligated, to file applications for protection of the INTELLECTUAL PROPERTY COLLATERAL and/or bring suit in the name of the BORROWER or the LENDER to enforce the INTELLECTUAL PROPERTY COLLATERAL. In the event of such suit, the BORROWER shall, during the continuance of an EVENT OF DEFAULT, at the request of the LENDER, do any and all lawful acts, including joinder as a party, and execute any and all documents requested by the LENDER in aid of such enforcement, and the BORROWER shall promptly reimburse and indemnify the LENDER for all costs and expenses incurred by the LENDER in the exercise of its rights under this section. In the event that the LENDER shall elect not to bring suit to enforce the INTELLECTUAL PROPERTY COLLATERAL, the BORROWER agrees, at the request of the LENDER, to take all actions necessary, whether by suit, proceeding or other action, to prevent and/or obtain a recovery for the infringement or other violation of rights in, diminution in value of, or other damage to any of the INTELLECTUAL PROPERTY COLLATERAL by any person.

Section 8.7. Grant Of Intellectual Property License. Solely for the purpose of enabling the LENDER to exercise rights and remedies hereunder upon the occurrence and during the continuance of an EVENT OF DEFAULT and for no other purpose, the BORROWER hereby grants to the LENDER a non-exclusive license and, to the extent permitted under INTELLECTUAL PROPERTY LICENSES granting the BORROWER rights in INTELLECTUAL PROPERTY, sublicense (in each case, exercisable without payment of royalties or other compensation to the BORROWER) to use or otherwise exploit, with rights of sublicense, any of the INTELLECTUAL PROPERTY COLLATERAL now or hereafter owned by or licensed to the BORROWER, wherever the same may be located; provided that: (a) such license shall be subject to the rights of any licensee under any exclusive license granted prior to such EVENT OF DEFAULT, to the extent such license is a PERMITTED LIEN; (b) such license shall be irrevocable during the continuance of an EVENT OF DEFAULT; (c) the quality of any services or products in connection with which any TRADEMARKS included in the COLLATERAL are used will not be materially inferior to the quality of such services and products sold by the BORROWER under such TRADEMARKS immediately prior to such EVENT OF DEFAULT and the BORROWER shall have the right to inspect any such services and products to monitor compliance with such standard; and (d) to the extent the foregoing license is a sublicense of the BORROWER'S rights as licensee under any third party license, the license to LENDER shall be in accordance with any limitations in such third party license including prohibitions on further sublicensing. Consistent with the foregoing provisos, the license shall include access to all media in which any of the licensed items may be recorded or stored and to all computer programs used for the compilation or printout hereof.

Section 8.8. Remedies Cumulative. The rights and remedies provided in this AGREEMENT and in the other LOAN DOCUMENTS or otherwise under applicable LAWS shall be cumulative and the exercise of any particular right or remedy shall not preclude the exercise of any other rights or remedies in addition to, or as an alternative of, such right or remedy.

## ARTICLE 9.
## GENERAL CONDITIONS AND TERMS

Section 9.1. Obligations Are Unconditional. The payment and performance of the OBLIGATIONS shall be the absolute and unconditional duty and obligation of the BORROWER, and shall be independent of any defense or any rights of set-off, recoupment or counterclaim which the BORROWER might otherwise have against the LENDER. The BORROWER shall pay the payments of the principal and interest to be made upon the OBLIGATIONS, free of any deductions and without abatement, diminution or set-off other than those herein expressly provided. Until such time as the OBLIGATIONS (other than contingent indemnification obligations) have been fully paid and performed, the BORROWER shall not: (a) suspend or discontinue any payments required by the LOAN DOCUMENTS; and (b) fail to perform and observe all of the BORROWER'S covenants and agreements set forth in the LOAN DOCUMENTS.

Section 9.2. Indemnification. The BORROWER agrees to indemnify and hold harmless, the LENDER, the LENDER'S AFFILIATES and the LENDER'S AFFILIATES officers, directors, shareholders, employees and agents (each an "Indemnified Party", and collectively, the "Indemnified Parties"), from and against any and all claims, liabilities, losses, damages, costs and expenses (whether or not such Indemnified Party is a party to any litigation), including without limitation, reasonable attorney's fees and costs and costs of investigation, document production, attendance at depositions or other discovery, incurred by any Indemnified Party with respect to, arising out of or as a consequence of (a) this AGREEMENT or any of the other LOAN DOCUMENTS, including without limitation, any failure of the BORROWER to pay when due (at maturity, by acceleration or otherwise) any principal, interest, fee or any other amount due under this AGREEMENT or the other LOAN DOCUMENTS, or any other EVENT OF DEFAULT (b) the use by the BORROWER of any proceeds advanced hereunder; (c) the transactions contemplated hereunder; or (d) any claim, demand, action or cause of action being asserted against (i) the BORROWER or any of its affiliates by any other PERSON, or (ii) any Indemnified Party by the BORROWER in connection with the transactions contemplated hereunder. Notwithstanding anything herein or elsewhere to the contrary, the BORROWER shall not be obligated to indemnify or hold harmless any Indemnified Party from any liability, loss or damage resulting from the gross negligence, willful misconduct or unlawful actions of such Indemnified Party. Any amount payable to the LENDER under this Section will bear interest at the default rate of interest set forth in the NOTE from the due date until paid.

Section 9.3. NO ORAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 9.4. Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any assignment and assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable LAW, including the Federal Electronic Signatures in Global and National Commerce Act, or any other similar state LAWS based on the Uniform Electronic Transactions Act.

Section 9.5. Power of Attorney. In addition to all of the powers granted to the LENDER in this AGREEMENT, the BORROWER hereby appoints and constitutes the LENDER as the BORROWER'S attorney-in-fact to request, at any time there exists a reasonable basis for the LENDER to

believe that a DEFAULT or EVENT OF DEFAULT has occurred and is continuing, from customers indebted on its RECEIVABLES verification of information concerning such RECEIVABLES and the amount owing thereon (provided that any verification prior to an EVENT OF DEFAULT shall not contain the LENDER'S name), and, upon the occurrence and during the continuance of an EVENT OF DEFAULT, (i) to convey any item of COLLATERAL to any purchaser thereof and (ii) to make any payment or take any act necessary or desirable to protect or preserve any COLLATERAL. The LENDER'S authority hereunder shall include, without limitation, the authority to execute and give receipt for any certificate of ownership or any document, to transfer title to any item of COLLATERAL and to take any other actions arising from or incident to the powers granted to the LENDER under this AGREEMENT. This power of attorney is coupled with an interest and is irrevocable.

Section 9.6. Lender Expenses. All LENDER EXPENSES shall be paid by the BORROWER, whether incurred prior to or after CLOSING.

Section 9.7. Incorporation; Construction Of Inconsistent Provisions. In the event of any inconsistency between this AGREEMENT and any other LOAN DOCUMENT, the terms of this AGREEMENT shall govern.

Section 9.8. Waivers. The LENDER at any time or from time to time may waive all or any rights under this AGREEMENT or any other LOAN DOCUMENT, but any waiver or indulgence by the LENDER at any time or from time to time shall not constitute a future waiver of performance or exact performance by the BORROWER.

Section 9.9. Continuing Obligation Of Borrower; Termination. The terms, conditions, and covenants set forth herein and in the LOAN DOCUMENTS shall survive CLOSING and shall constitute a continuing obligation of the BORROWER. The security interests, LIENS and other security provided by this AGREEMENT shall remain in effect so long as any OBLIGATION (other than contingent indemnification obligations), whether direct or contingent, is outstanding, unpaid or unsatisfied. Notwithstanding anything to the contrary in any LOAN DOCUMENT, upon payment in full in cash of the OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS), the receipt by the LENDER of BORROWER'S written notice to terminate the LENDER'S commitment to make any advance under the LOAN (and no BORROWER shall make any subsequent request for any such advance) and the expiration of all LETTERS OF CREDIT, this AGREEMENT and the LENDER'S LIENS in the COLLATERAL shall terminate and the LENDER shall, at the cost and expense of the BORROWER, make such filings and take such other actions as the BORROWER may reasonable request in order to evidence such termination and release.

Section 9.10. Choice Of Law. The laws of the Commonwealth of Virginia (excluding, however, conflict of law principles) shall govern and be applied to determine all issues relating to this AGREEMENT and the rights and obligations of the parties hereto, including the validity, construction, interpretation, and enforceability of this AGREEMENT and its various provisions and the consequences and legal effect of all transactions and events which resulted in the execution of this AGREEMENT or which occurred or were to occur as a direct or indirect result of this AGREEMENT having been executed.

Section 9.11. Submission To Jurisdiction; Venue; Actions Against Lender. For purposes of any action, in law or in equity, which is based directly or indirectly on this AGREEMENT, any other LOAN DOCUMENT or any matter related to this AGREEMENT or any other LOAN DOCUMENT, including any action for recognition or enforcement of any of the LENDER'S rights under the LOAN DOCUMENTS or any judgment obtained by the LENDER in respect thereof, the BORROWER hereby:

Section 9.11.1. Jurisdiction. Irrevocably submits to the non-exclusive general jurisdiction of the courts of the Commonwealth of Virginia and, if a basis for federal jurisdiction exists at any time, the courts of the United States of America for the District of Virginia.

Section 9.11.2. Venue. Agrees that venue shall be proper in the Circuit Court for any county in the Commonwealth of Virginia, as selected by the LENDER, and, if a basis for federal jurisdiction exists, the courts of the United States of America for the District of Virginia.

Section 9.11.3. Waiver Of Objections To Venue. Waives any right to object to the maintenance of any suit in any of the courts specified in Section 9.11.2 above on the basis of improper venue or convenience of forum. The BORROWER further agree that they shall not institute any suit or other action against the LENDER, in law or in equity, which is based directly or indirectly on this AGREEMENT, any other LOAN DOCUMENT or any matter related to this AGREEMENT or any other LOAN DOCUMENT, in any court other than a court specified in Section 9.11.2 above; provided, that in any instance in which there is then pending a suit instituted by the LENDER against the BORROWER in a court other than a court specified in Section 9.11.2 above, the BORROWER may file in such suit any counterclaim which it has against the LENDER but only if such counterclaim is a compulsory counterclaim and would be barred if not filed as a counterclaim in such suit. The BORROWER agree that any suit brought by it against the LENDER not in accordance with this paragraph should be forthwith dismissed or transferred to a court specified in Section 9.11.2 above.

Section 9.12. Notices. Any notice required or permitted by or in connection with this AGREEMENT shall be in writing and shall be made by facsimile (confirmed on the date the facsimile is sent by one of the other methods of giving notice provided for in this Section) or by hand delivery, by Federal Express, or other similar overnight delivery service, or by certified mail, unrestricted delivery, return receipt requested, postage prepaid, addressed to the LENDER or the BORROWER at the appropriate address set forth below or to such other address as may be hereafter specified by written notice by the LENDER or the BORROWER. Notice shall be considered given as of the date of the facsimile or the hand delivery, one (1) calendar day after delivery to Federal Express or similar overnight delivery service, or three (3) calendar days after the date of mailing, independent of the date of actual delivery or whether delivery is ever in fact made, as the case may be, provided the giver of notice can establish the fact that notice was given as provided herein. If notice is tendered pursuant to the provisions of this Section and is refused by the intended recipient thereof, the notice, nevertheless, shall be considered to have been given and shall be effective as of the date herein provided.

If to the LENDER:

M&T BANK
7799 Leesburg Pike, North Tower, Suite 900
Falls Church, Virginia 22043
Attn: R. Mark Swaak, Vice President
Fax No.: (703) 448-3190

If to the BORROWER:

ALJ REGIONAL HOLDINGS, INC.
_____
_____
Attn: _____
Fax No.: _____

and to:

Robert Christ
PO Box 99418
San Diego, CA 92169
Fax No.: (301) 529-3160
Email: t.robert.christ@gmail.com

and to:

Christopher M. Forrester
Shearman & Sterling LLP
Five Palo Alto Square, 6th Floor
3000 El Camino Real
Palo Alto, California 94306-2155
Email: Christopher.Forrester@Shearman.com

Section 9.13. Participations. The LENDER reserves the right to assign all or any portion of its interests in any of the OBLIGATIONS or the LOAN DOCUMENTS or to participate with other lending institutions any of the OBLIGATIONS and the LOAN DOCUMENTS on such terms and at such times as the LENDER may determine from time to time; provided that, unless an EVENT OF DEFAULT shall have occurred, the LENDER shall not make any such assignment without the prior written consent of the BORROWER (such consent not to be unreasonably withheld, conditioned or delayed).

Section 9.14. Miscellaneous Provisions. The parties agree that: (a) this AGREEMENT shall be effective as of the date first above written, independent of the date of execution or delivery hereof; (b) this AGREEMENT shall be binding upon the parties and their successors and assigns, contains the final and entire agreement and understanding of the parties, and may neither be amended or altered except by a writing signed by the parties; (c) time is strictly of the essence of this AGREEMENT; (d) as used herein, the singular includes the plural and the plural includes the singular, the use of any gender applies to all genders; (e) the captions contained herein are for purposes of convenience only and are not a part of this AGREEMENT; (f) a carbon, photographic, photocopy or other reproduction of a security agreement or financing statement shall be sufficient as a financing statement; (g) this AGREEMENT may be delivered by facsimile, and a facsimile of any party's signature to this AGREEMENT shall be deemed an original signature for all purposes; and (h) this AGREEMENT may be executed in several counterparts, each of which shall be an original, but all of which, when taken together, shall constitute one and the same document.

Section 9.15. Waiver Of Trial By Jury. Each party to this AGREEMENT agrees that any suit, action, or proceeding, whether claim or counterclaim, brought or instituted by either party hereto or any successor or assign of any party on or with respect to this AGREEMENT or any other LOAN DOCUMENT or which in any way relates, directly or indirectly, to the OBLIGATIONS or any event, transaction, or occurrence arising out of or in any way connected with any of the OBLIGATIONS, or the dealings of the parties with respect thereto, shall be tried only by a court and not by a jury. **EACH PARTY HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION, OR PROCEEDING.**

[Signatures Contained on Next Page]

IN WITNESS WHEREOF, the LENDER and the BORROWER has duly executed this Loan And Security Agreement under seal as of the date first above written.

WITNESS/ATTEST:

**LENDER:**

**M&T BANK**

By: _____(SEAL)
Name: R. Mark Swaab
Title: Vice President

**BORROWER:**

**ALJ REGIONAL HOLDINGS, INC.,**
A Delaware Corporation

_____

By: _____(SEAL)
Name: _____
Title: _____

IN WITNESS WHEREOF, the LENDER and the BORROWER has duly executed this Loan And Security Agreement under seal as of the date first above written.

WITNESS/ATTEST:

**LENDER:**

**M&T BANK**

_____

By: _____(SEAL)
Name: _____
Title: _____

**BORROWER:**

**ALJ REGIONAL HOLDINGS, INC.,**
A Delaware Corporation



By: _____(SEAL)
Name: Jess Ravich
Title: Executive Chairman

**EXHIBIT NO. 11**

# LOAN AND SECURITY AGREEMENT

Between

**FLOORS-N-MORE, LLC,**
A Nevada Limited Liability Company

"BORROWER"

And

**M&T BANK,**
A New York Banking Corporation

"LENDER"

**$3,000,000.00 REVOLVING LINE OF CREDIT**

Dated: September 30, 2014

# LOAN AND SECURITY AGREEMENT

**THIS LOAN AND SECURITY AGREEMENT** is dated as of September 30, 2014 by and between **FLOORS-N-MORE, LLC**, a Nevada limited liability company ("BORROWER") and **M&T BANK** ("LENDER").

## RECITALS

The BORROWER has requested that the LENDER extend a revolving line of credit to the BORROWER. The LENDER is willing to provide the requested credit accommodation upon the terms and conditions of this Loan And Security Agreement, and upon the granting by the BORROWER to the LENDER of the security interests, liens, and other assurances of payment provided for in this Loan And Security Agreement.

**NOW, THEREFORE,** in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

## ARTICLE 1.
## DEFINITIONS

As used in this Loan And Security Agreement, the terms set forth in this Article 1 have the meanings set forth below, unless the specific context of this Loan And Security Agreement clearly requires a different meaning. Terms defined in this Article 1 or elsewhere in this Loan And Security Agreement are in all capital letters throughout this Loan And Security Agreement. The singular use of any defined term includes the plural and the plural use includes the singular.

Section 1.1. Account Debtor. The term "ACCOUNT DEBTOR" means collectively each PERSON: (a) to or for whom the BORROWER has provided or has agreed to provide any goods or services; or (b) which owes the BORROWER any sum of money as a result of goods sold or services provided by the BORROWER; or (c) which is the maker or endorser on any INSTRUMENT payable to the BORROWER or otherwise owes the BORROWER any sum of money on account of any loan or other payment obligation. With respect to each RECEIVABLE which is payable by any GOVERNMENTAL AUTHORITY, "ACCOUNT DEBTOR" includes, without limitation, the agency, instrumentality or official which has the duty of remitting or causing the remittance of the amounts owing on such ACCOUNT or other RECEIVABLE.

Section 1.2. Account, As-Extracted Collateral, Chattel Paper, Deposit Account, Document, Equipment, Fixtures, General Intangibles, Goods, Instrument, Inventory, Investment Property, And Letter-Of-Credit Right. The terms "ACCOUNT," "AS-EXTRACTED COLLATERAL," "CHATTEL PAPER," "DEPOSIT ACCOUNT," "DOCUMENT," "EQUIPMENT," "FIXTURES," "GENERAL INTANGIBLES," "GOODS," "INSTRUMENT," "INVENTORY," "INVESTMENT PROPERTY," and "LETTER-OF-CREDIT RIGHT" shall have the same respective meanings as are given to those terms in the UCC.

Section 1.3. Affiliate. The term "AFFILIATE" means collectively any PERSON: (a) that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with the BORROWER, including, without limitation, the officers, managers and directors of the BORROWER; (b) that directly or beneficially owns or holds ten percent (10%) or more of any equity interests in the BORROWER; or (c) ten percent (10%) or more of whose equity interests

are owned directly or controlled by the BORROWER. As used herein, the term "control" (including, with correlative meanings, the terms "controlled by" and "under common control with") shall mean possession, directly or indirectly, of the power to direct the management or policies of a PERSON, whether through ownership of equity interests, by contract or otherwise.

Section 1.4. Agreement. The term "AGREEMENT" means this Loan And Security Agreement, as amended, extended, or modified from time to time by the parties hereto, as well as all schedules, exhibits and attachments hereto.

Section 1.5. Anti-Terrorism Order. The term "ANTI-TERRORISM ORDER" means the Executive Order 132264. 66 Fed. Reg. 49079 (September 25, 2001) (Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit or Support Terrorism) and any similar Presidential Executive Order.

Section 1.6. Bank Products. The term "BANK PRODUCTS" means any one or more of the following types of services or facilities extended to the BORROWER by the LENDER or an AFFILIATE of the LENDER: (a) Automated Clearing House (ACH) transactions and other similar money transfer services; (b) cash management, lockbox services and other similar services; (c) establishing and maintaining deposit accounts; (d) credit cards or stored value cards; and (e) other similar or related bank products and services.

Section 1.7. Business Day. The term "BUSINESS DAY" means any day other than a Saturday, Sunday, or other day on which commercial banking institutions in the State of Maryland are required to be closed.

Section 1.8. Capital Adequacy Requirement. The term "CAPITAL ADEQUACY REQUIREMENT" means any LAW imposing any capital adequacy requirement or any other similar requirement (including but not limited to the capital adequacy regulations contained in Parts 3, 208 and 225 of Title 12 of the Code of Federal Regulations, as amended), any change in such LAWS or in the interpretation or application thereof, and any request or directive regarding capital adequacy (whether or not having the force of law) from any central bank or government authority.

Section 1.9. Capital Lease. The term "CAPITAL LEASE" means a lease with respect to which the lessee's obligations thereunder should, in accordance with G.A.A.P., be capitalized and reflected as a liability on the balance sheet of the lessee.

Section 1.10. Capital Lease Obligations. The term "CAPITAL LEASE OBLIGATIONS" means any indebtedness incurred as a lessee pursuant to a CAPITAL LEASE.

Section 1.11. Capital Stock. The term "CAPITAL STOCK" means (i) with respect to any PERSON that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, and (ii) with respect to any PERSON that is not a corporation, any and all partnership, membership or other equity interests of such Person.

Section 1.12. Cash Flow. The term "CASH FLOW" means for the period of determination, the COMPANIES' EBITDA minus UNFUNDED CAPITAL EXPENDITURES, minus the aggregate amount of cash payments made pursuant to clause (b) of Section 6.5 for such period, minus cash taxes, minus dividends or payments paid to shareholders, in each case without duplication and all as determined in accordance with G.A.A.P.

Section 1.13. Change of Control. The term "CHANGE OF CONTROL" means with respect to a party, the occurrence of any of the following events: (a) any consolidation or merger of such party with or into any other entity in which the holders of such party's outstanding voting equity interests immediately before such consolidation or merger do not, immediately after such consolidation or merger, retain equity interests representing a majority of the voting power of the surviving entity or stock representing a majority of the voting power of an entity that wholly owns, directly or indirectly, the surviving entity; (b) the sale, transfer or assignment of securities of such party representing a majority of the voting power of all of such party's outstanding voting securities to an acquiring party or group; or (c) the sale of all or substantially all of such party's assets.

Section 1.14. Charges. The term "CHARGES" means all federal, state, county, city, municipal, local, foreign or other governmental taxes, premiums and other amounts (including premiums and other amounts owed to the Pension Benefit Guaranty Corporation at the time due and payable), levies, assessments, charges, LIENS, claims or encumbrances upon or relating to (a) the COLLATERAL, (b) the OBLIGATIONS, (c) the employees, payroll, income or gross receipts of the BORROWER, (d) the BORROWER'S ownership or use of any properties or other assets, or (e) any other aspect of the BORROWER'S business.

Section 1.15. Closing. The term "CLOSING" means the execution and delivery of this AGREEMENT, the NOTE, and various other LOAN DOCUMENTS. The date of CLOSING is the date written above as the date of this AGREEMENT.

Section 1.16. Code. The term "CODE" means the Internal Revenue Code of 1986, as amended, and all Treasury regulations, revenue rulings, revenue procedures or announcements issued thereunder.

Section 1.17. Collateral. The term "COLLATERAL" means all of the tangible and intangible assets and personal property of the BORROWER, wherever located, whether now owned or hereafter acquired by the BORROWER, together with all substitutions therefore, and all replacements and renewals thereof, and all accessions, additions, replacement parts, manuals, warranties and packaging relating thereto, including but not limited to the following tangible and intangible assets and property rights of the BORROWER: (a) ACCOUNTS; (b) AS-EXTRACTED COLLATERAL; (c) CHATTEL PAPER; (d) DEPOSIT ACCOUNTS; (e) DOCUMENTS; (f) EQUIPMENT; (g) FIXTURES; (h) GENERAL INTANGIBLES; (i) GOODS; (j) INSTRUMENTS; (k) INVENTORY, including returned, rejected, or repossessed INVENTORY and rights of reclamation and stoppage in transit with respect to INVENTORY; (l) INVESTMENT PROPERTY; (m) LETTER-OF-CREDIT RIGHTS; (n) RECEIVABLES; (o) INTELLECTUAL PROPERTY; and (p) all RECORDS relating to or pertaining to any of the above listed COLLATERAL; provided that, notwithstanding the foregoing, the COLLATERAL shall not include any EXCLUDED PROPERTY.

Section 1.18. Collateral Account. The term "COLLATERAL ACCOUNT" means a bank account designated by the LENDER from which the LENDER alone has power of access and withdrawal.

Section 1.19. Commercial Account. The term "COMMERCIAL ACCOUNT" means the commercial checking account to be established and maintained by the BORROWER with the LENDER and which may be utilized as the means of advancing funds under the LOAN.

Section 1.20. Companies. The term "COMPANIES" means, collectively, the BORROWER and each DOMESTIC SUBSIDIARY that becomes a GUARANTOR.

Section 1.21. Copyrights. The term "COPYRIGHTS" means, collectively, copyrights (whether statutory or common law, whether established, registered or recorded in the United States or any other country or any political subdivision thereof, and whether published or unpublished) and all mask works (as such term is defined in 17 U.S.C. Section 901, *et seq.*), together with any and all: (a) registrations and applications therefore; (b) rights and privileges arising under applicable law with respect to such copyrights; (c) renewals and extensions thereof; (d) income, fees, royalties, damages, claims and payments now or hereafter due and/or payable with respect thereto, including damages and payments for past, present or future infringements or other violations thereof; (e) rights to sue for past, present or future infringements thereof; and (f) rights corresponding thereto throughout the world.

Section 1.22. Current Ratio. The term "CURRENT RATIO" means the ratio of current assets to current liabilities as determined in accordance with G.A.A.P.

Section 1.23. Debt Service. The term "DEBT SERVICE" means the aggregate interest expense for the period of determination.

Section 1.24. Default. The term "DEFAULT" means any event, occurrence or omission which, with the giving of notice, the passage of time, or both, would constitute an EVENT OF DEFAULT.

Section 1.25. Dollar Cap. The term "DOLLAR CAP" means Three Million Dollars ($3,000,000.00), minus (a) until such time as the BORROWER provides the LENDER with evidence, reasonably acceptable to the LENDER, that the judgment against the BORROWER in favor of Xerox Corporation in the amount of $233,759.69 has been satisfied and released, an amount equal to $233,759.69; and (b) until such time as the BORROWER provides the LENDER with evidence, reasonably acceptable to the LENDER, that the federal tax lien against the BORROWER in the original amount of $465,392.62 (Notice of Federal Tax Lien Serial Number 787460311) has been satisfied and released, an amount equal to $211,007.00.

Section 1.26. Domestic Subsidiary. The term "DOMESTIC SUBSIDIARY" means any SUBSIDIARY organized under the laws of the United States, any State thereof or the District of Columbia.

Section 1.27. EBITDA. The term "EBITDA" means the BORROWER'S net income, plus, to the extent deducted in determining such net income, interest expense, depreciation, amortization and income taxes, all as determined in accordance with G.A.A.P.

Section 1.28. Employee Benefit Plan. The term "EMPLOYEE BENEFIT PLAN" means an "employee benefit plan" as defined in Section 3(3) of ERISA.

Section 1.29. Environmental Laws. The term "ENVIRONMENTAL LAWS" means individually or collectively any local, state or federal LAW, statute, rule, regulation, order, ordinance, common law, permit or license term or condition, or state superlien or environmental clean-up or disclosure statutes pertaining to the environment or to environmental contamination, regulation, management, control, treatment, storage, disposal, containment, removal, clean-up, reporting, or disclosure, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as now or hereafter amended (including, but not limited to, the Superfund Amendments and Reauthorization Act); the Resource Conservation and Recovery Act, as now or hereafter amended (including, but not limited to, the Hazardous and Solid Waste Amendments of 1984); the Toxic Substances Control Act, as now or hereafter amended; the Clean Water Act, as now or hereafter amended; the Safe Drinking Water Act, as now or hereafter amended; or the Clean Air Act, as now or hereafter amended.

Section 1.30. EPA Permit. The term "EPA PERMIT" has the meaning given that term in Section 4.18 of this AGREEMENT.

Section 1.31. ERISA. The term "ERISA" means the Employee Retirement Income Security Act of 1974 and regulations issued thereunder, as amended from time to time and any successor statute.

Section 1.32. ERISA Affiliate. The term "ERISA AFFILIATE" means, in relation to any PERSON, any trade or business (whether or not incorporated) which is a member of a group of which that PERSON is a member and which is under common control within the meaning of the regulations promulgated under Section 414 of the CODE.

Section 1.33. ERISA Liabilities. The term "ERISA LIABILITIES" means the aggregate of all unfunded vested benefits under any employee pension benefit plan, within the meaning of Section 3(2) of ERISA, of the BORROWER or any ERISA AFFILIATE of the BORROWER under any plan covered by ERISA that is not a MULTIEMPLOYER PLAN and all potential withdrawal liabilities of the BORROWER or any ERISA AFFILIATE under all MULTIEMPLOYER PLANS.

Section 1.34. Event Of Default. The term "EVENT OF DEFAULT" means any of the events set forth in Article 7 of this AGREEMENT, provided that any requirement for the giving of notice, the lapse of time, or both, or any other expressly stated condition, has been satisfied.

Section 1.35. Excluded Property. The term "EXCLUDED PROPERTY" means (i) the portion of any equity interests in excess of 65% of the total combined voting power of all classes of equity interests entitled to vote (within the meaning of Section 1.956-2(c)(2) of the United States Treasury regulations) of any foreign SUBSIDIARY; (ii) any right, title or interest in any permit, license or any contractual obligation entered into by the BORROWER or any SUBSIDIARY, any directly held investment property (as defined in the UCC) or any general intangibles (as defined in the UCC) now or hereafter owned by the BORROWER or any SUBSIDIARY (A) that prohibits the creation by the BORROWER or SUBSIDIARY of a LIEN thereon or requires the consent of any PERSON other than the BORROWER and its AFFILIATES which consent has not been obtained as a condition to the creation of such LIEN or which would be breached or give any such PERSON the right to terminate it as a result of the creation of such LIEN, or (B) to the extent that any applicable LAWS prohibit the creation of a LIEN thereon, but only, in each case, to the extent and for so long as, such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective under Section 9-406, 9-407, 9-408, or 9-409 of the UCC or under any other applicable LAW any applicable laws; (iii) any property now owned or hereafter acquired by the BORROWER or any SUBSIDIARY that is subject to a purchase money LIEN or a capitalized lease permitted under this AGREEMENT if the contractual obligation (or other documentation) pursuant to which such LIEN is granted prohibits the creation of a LIEN thereon or requires the consent of any PERSON other than the BORROWER or its AFFILIATES which consent has not been obtained as a condition to the creation of any other LIEN on such property, except to the extent that such term in such contractual obligation or documentation provision is ineffective under Section 9-406, 9-407, 9-408, or 9-409 of the UCC or under any other applicable LAW.

Section 1.36. Facilities. The term "FACILITIES" means all real property and the improvements thereon used or occupied or leased by the BORROWER or otherwise used at any time by the BORROWER in the operation of its business or for the manufacture, storage, or location of any of the COLLATERAL.

Section 1.37. Fiscal Year. The term "FISCAL YEAR" means the fiscal year of the BORROWER which is the twelve (12) month accounting period commencing October 1st of each

calendar year.

Section 1.38. Foreign Subsidiary. The term "FOREIGN SUBSIDIARY" means any SUBSIDIARY that is not a DOMESTIC SUBSIDIARY.

Section 1.39. G.A.A.P. The term "G.A.A.P." means, with respect to any date of determination, generally accepted accounting principles as used by the Financial Accounting Standards Board and/or the American Institute of Certified Public Accountants consistently applied and maintained throughout the periods indicated.

Section 1.40. Governmental Authority. The term "GOVERNMENTAL AUTHORITY" means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

Section 1.41. Guaranteed Pension Plan. The term "GUARANTEED PENSION PLAN" means any pension plan maintained by the BORROWER or an ERISA AFFILIATE of the BORROWER, or to which the BORROWER or an ERISA AFFILIATE contributes, some or all of the benefits under which are guaranteed by the United States Pension Benefit Guaranty Corporation.

Section 1.42. Guarantor. The term "GUARANTOR" means, collectively, Faneuil, Inc., a Delaware corporation, and any DOMESTIC SUBSIDIARY required to become a GUARANTOR hereunder.

Section 1.43. Guaranty Indebtedness. The term "GUARANTY INDEBTEDNESS" means any obligation, contingent or otherwise, of any referenced PERSON directly or indirectly guaranteeing any debt or obligation of any other PERSON and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such PERSON: (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such debt or obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, other than agreements to purchase goods at an arm's length price in the ordinary course of business); or (b) entered into for the purpose of assuring in any other manner the holder of such debt or obligation of the payment thereof or to protect such holder against loss in respect thereof (in whole or in part) The term GUARANTY INDEBTEDNESS shall not include endorsements for collection or deposit in the ordinary course of business.

Section 1.44. Indebtedness. The term "INDEBTEDNESS" means, as to any referenced PERSON (determined without duplication): (a) indebtedness of such PERSON for borrowed money (whether by loan or the issuance and sale of debt securities), or for the deferred purchase or acquisition price of property or services; (b) obligations of such PERSON in respect of letters of credit, banker's or other acceptances or similar instruments issued or accepted by financial institutions for the ACCOUNT of such PERSON (whether or not such obligations are contingent); (c) CAPITAL LEASE OBLIGATIONS of such PERSON; (d) SYNTHETIC LEASE OBLIGATIONS; (e) all liabilities secured by any LIEN on any property owned by such PERSON, to the extent attached to such PERSON'S interest in such property, even though such PERSON has not assumed or become personally liable for the payment thereof; and (f) any obligations, liabilities or indebtedness, contingent or otherwise, under or in connection with any INTEREST RATE HEDGE AGREEMENTS; but excluding trade and other accounts payable in the ordinary course of business in accordance with customary trade terms and that are not overdue (as determined in accordance with customary trade practices) or that are being disputed in

good faith by such PERSON and for which adequate reserves are being provided on the books of such PERSON in accordance with G.A.A.P.

Section 1.45. Insolvency Proceedings. The term "INSOLVENCY PROCEEDINGS" means, with respect to any referenced PERSON, any case or proceeding commenced by or against such PERSON, under any provision of the United States Bankruptcy Code, as amended, or under any other federal or state bankruptcy or insolvency law, or any assignments for the benefit of creditors, formal or informal moratoriums, receiverships, compositions or extensions with some or all creditors with respect to any indebtedness of such PERSON.

Section 1.46. Intellectual Property. The term "INTELLECTUAL PROPERTY" means, collectively, PATENTS, TRADEMARKS, COPYRIGHTS, INTELLECTUAL PROPERTY LICENSES and OTHER PROPRIETARY RIGHTS.

Section 1.47. Intellectual Property Licenses. The term "INTELLECTUAL PROPERTY LICENSES" means, collectively, with respect to the BORROWER, all license agreements, distribution agreements and covenants not to sue (regardless of whether such agreements and covenants are contained within an agreement that also covers other matters, such as development or consulting) with respect to any PATENT, TRADEMARK, COPYRIGHT or OTHER PROPRIETARY RIGHTS, regardless of whether the BORROWER is a licensor or licensee, distributor or distributee under any such agreement, together with any and all: (a) amendments, renewals, extensions, supplements and continuations thereof; (b) income, fees, royalties, damages, claims and payments now and hereafter due and/or payable thereunder and with respect thereto including damages and payments for past, present or future breaches or violations thereof; and (c) rights to sue for past, present and future breaches or violations thereof.

Section 1.48. Interest Rate Hedge Agreement. The term "INTEREST RATE HEDGE AGREEMENT" means any of the following, whether currently existing or arising in the future, between the BORROWER and the LENDER: (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement.

Section 1.49. Laws. The term "LAWS" means all ordinances, statutes, rules, regulations, orders, injunctions, writs or decrees of any government or political subdivision or agency thereof, or any court or similar entity established by any thereof.

Section 1.50. LC Obligations. The term "LC OBLIGATIONS" means, at any time, the sum of (a) the aggregate stated amount of all issued and outstanding LETTERS OF CREDIT, plus (b) the aggregate amount of all advances made under the LETTERS OF CREDIT for which the BORROWER has not yet reimbursed the LENDER.

Section 1.51. Lender Expenses. The term "LENDER EXPENSES" means the documented,

out-of-pocket expenses or costs incurred by the LENDER arising out of, pertaining to, or in any way connected with this AGREEMENT, any of the other LOAN DOCUMENTS or the OBLIGATIONS, or any documents executed in connection herewith or transactions hereunder (including, but not limited to, the SUBORDINATION AGREEMENT). The term "LENDER EXPENSES" shall include, without limitation: (a) the costs or expenses required to be paid by the BORROWER pursuant to this AGREEMENT or any other LOAN DOCUMENT; (b) taxes and insurance premiums advanced or otherwise paid by the LENDER in connection with the COLLATERAL or on behalf of the BORROWER; (c) filing, recording, audit fees, search fees, consulting fees and other expenses paid or incurred by the LENDER in connection with the LENDER'S transactions with the BORROWER under the LOAN DOCUMENTS; (d) costs and expenses incurred by the LENDER in the collection of the ACCOUNTS (with or without the institution of legal action), or to enforce any provision of this AGREEMENT, or in gaining possession of, maintaining, handling, evaluating, preserving, storing, shipping, selling, preparing for sale and/or advertising to sell the COLLATERAL or any other property of the BORROWER whether or not a sale is consummated; (e) costs and expenses of litigation incurred by the LENDER in enforcing or defending this AGREEMENT or any portion hereof or in collecting any of the OBLIGATIONS; (f) reasonable attorneys' fees and expenses incurred by the LENDER in obtaining advice or the services of its attorneys with respect to the structuring, drafting, negotiating, reviewing, amending, terminating, enforcing or defending of this AGREEMENT, or any portion hereof or any agreement or matter related hereto, whether or not litigation is instituted; and (g) reasonable travel expenses of LENDER related to any of the foregoing.

Section 1.52. Letters Of Credit. The term "LETTERS OF CREDIT" means collectively letters of credit issued from time to time by the LENDER for the account or benefit of the BORROWER.

Section 1.53. Lien. The term "LIEN" means any lien, security interest, mortgage, deed of trust, charge or other encumbrance or security arrangement of any nature whatsoever, whether voluntary or involuntary.

Section 1.54. Loan. The term "LOAN" means the revolving credit facility extended by the LENDER to the BORROWER in accordance with the terms set forth in this AGREEMENT.

Section 1.55. Loan Documents. The term "LOAN DOCUMENTS" means all agreements, instruments and documents, including without limitation all loan agreements (including without limitation this AGREEMENT), notes (including without limitation the NOTE), guarantees, subordination agreements, intercreditor agreements, pledges, affidavits, powers of attorney, consents, assignments, landlord and mortgage waivers, opinions, collateral assignments, reimbursement agreements, contracts, notices, leases, financing statements, assignments of contract proceeds, intellectual property security agreements, pledges, letter of credit applications, INTEREST RATE HEDGE AGREEMENTS, and all other written matter, whether heretofore, now or hereafter executed by BORROWER, or by any SUBSIDIARY in connection with this AGREEMENT.

Section 1.56. Loan Parties. The term "LOAN PARTIES", collectively, the BORROWER and any GUARANTOR.

Section 1.57. Lock Box. The term "LOCK BOX" has the meaning given that term in Section 3.5 of this AGREEMENT.

Section 1.58. Material Adverse Event. The term "MATERIAL ADVERSE EVENT" means the occurrence of any event, condition, or omission which the LENDER in the good faith reasonable exercise of the LENDER'S discretion determines could reasonably be expected to have a material adverse effect upon: (a) the condition (financial or otherwise), results of operations, properties, assets, liabilities

(including, without limitation, tax liabilities, liabilities under ENVIRONMENTAL LAWS, and ERISA LIABILITIES), businesses, operations, capitalization, equity, licenses or franchises of the BORROWER; (b) the ability of the BORROWER to perform any of the OBLIGATIONS when and as required by the terms of the LOAN DOCUMENTS; (c) the rights and remedies of the LENDER as provided by the LOAN DOCUMENTS; or (d) the value, condition, use, or availability of any material portion of the COLLATERAL or upon any of the LENDER'S LIENS securing the OBLIGATIONS.

Section 1.59. Material Contract. The term "MATERIAL CONTRACT" means, with respect to any PERSON, (i) each contract or agreement to which such PERSON or any of its SUBSIDIARIES is a party involving aggregate consideration payable to or by such PERSON or such SUBSIDIARY of One Hundred Thousand Dollars ($100,000.00) or more, and (ii) all other contracts or agreements material to the business, operations, condition (financial or otherwise), performance, prospects or properties of such PERSON or such SUBSIDIARY.

Section 1.60. Maximum Loan Amount. The term "MAXIMUM LOAN AMOUNT" means the DOLLAR CAP.

Section 1.61. Multiemployer Plan. The term "MULTIEMPLOYER PLAN" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA which is maintained for employees of the BORROWER, or any ERISA AFFILIATE of the BORROWER.

Section 1.62. Note. The term "NOTE" means the Revolving Loan Promissory Note of even date herewith from the BORROWER as maker thereof which is payable to the order of the LENDER in the stated principal amount of Three Million Dollars ($3,000,000.00).

Section 1.63. OFAC. The term "OFAC" means the Office of Foreign Asset Control of the United States Department of Treasury.

Section 1.64. Obligations. The term "OBLIGATIONS" means collectively all of the following obligations of the BORROWER to pay to the LENDER: (a) sums due to the LENDER arising out of or in connection with the LOAN or otherwise pursuant to the terms of the LOAN DOCUMENTS; (b) indemnification obligations owed by the BORROWER to the LENDER in accordance with the terms of the LOAN DOCUMENTS; (c) LENDER EXPENSES; (d) overdrafts of the BORROWER upon any DEPOSIT ACCOUNT with the LENDER; (e) payments, duties or obligations owed to the LENDER arising from or with respect to INTEREST RATE HEDGE AGREEMENTS, foreign exchange facilities or currency transactions, existing or arising from time to time; (f) any sums owed to the LENDER arising out of or relating to any LETTERS OF CREDIT including, without limitation, all reimbursement and indemnification obligations, and obligations to pay fees; ; (g) all obligations and liabilities owed to the LENDER in connection with BANK PRODUCTS; and (h) any indebtedness or liability which may exist or arise as a result of any payment made with respect to any of the foregoing by or for the benefit of the BORROWER being avoided or set aside for any reason including, without limitation, any such payment being avoided as a preference under Sections 547 and 550 of the United States Bankruptcy Code, as amended, or under any state law governing insolvency or creditors' rights.

Section 1.65. Other Proprietary Rights. The term ""OTHER PROPRIETARY RIGHTS" means, collectively, trade secrets and confidential information, data and databases, know-how and processes, designs, inventions, technology and software and any other intangible rights, to the extent not covered by the definitions of PATENTS, TRADEMARKS and COPYRIGHTS, whether statutory or common law, whether registered or unregistered, and whether established or registered in the United States or any other country or any political subdivision thereof, together with any and all: (a) registrations and applications for the foregoing; (b) income, fees, royalties, damages and payments now and hereafter

due and/or payable thereunder and with respect thereto, including, without limitation, damages, claims and payments for past, present or future infringements or other violations thereof; (c) rights to sue for past, present and future infringements and other violations thereof; and (d) rights corresponding thereto throughout the world.

Section 1.66. Outstanding Amount. The term "OUTSTANDING AMOUNT" means, for any day, the outstanding principal balance of the LOAN plus the LC OBLIGATIONS.

Section 1.67. Overadvances. The term "OVERADVANCES" means the amount by which the OUTSTANDING AMOUNT exceeds the BORROWING BASE.

Section 1.68. Patents. The term "PATENTS" means, collectively, patents, patent applications, certificates of inventions, and industrial designs (whether established or registered or recorded in the United States or any other country or any political subdivision thereof), together with any and all: (a) inventions described and claimed therein; (b) reissues, divisions, continuations, extensions and continuations-in-part thereof; (c) income, fees, royalties, damages, claims and payments now or hereafter due and/or payable thereunder and with respect thereto including damages and payments for past, present or future infringements or other violations thereof; (d) rights to sue for past, present or future infringements or other violations thereof; and (e) rights corresponding thereto throughout the world.

Section 1.69. Permitted Indebtedness. The term "PERMITTED INDEBTEDNESS" means: (a) the OBLIGATIONS; (b) indebtedness secured by PERMITTED LIENS; (c) INDEBTEDNESS owing to the providers of insurance or their AFFILIATES incurred to finance deferred insurance premiums in the ordinary course of business; (d) INDEBTEDNESS in respect of advance payments by customers under purchase contracts in the ordinary course of business; (e) INDEBTEDNESS consisting of guaranty obligations in respect of loans and advances to employees, officers or directors of the BORROWER or any SUBSIDIARY in the ordinary course of business (including for travel, entertainment and relocation expenses) provided that the aggregate amount of such INDEBTEDNESS does not exceed Twenty-Five Thousand Dollars ($25,000.00); and (f) INDEBTEDNESS listed in Schedule 1.69 attached hereof.

Section 1.70. Permitted Liens. The term "PERMITTED LIENS" means: (a) LIENS for taxes, assessments, or similar charges incurred in the ordinary course of business that are not yet due and payable; (b) LIENS in favor of the LENDER; (c) any LIEN on specifically allocated money or securities to secure payments under workmen's compensation, unemployment insurance, social security and other similar LAWS, or to secure the performance of bids, tenders or contracts (other than for the repayment of borrowed money) or to secure statutory obligations or appeal bonds, or to secure indemnity, performance or other similar bonds in the ordinary course of business; (d) purchase money security interests for EQUIPMENT securing INDEBTEDNESS or LIENS securing capitalized lease obligations, provided that such purchase money security interests or other LIENS do not attach to any to any assets other than the specific item(s) of EQUIPMENT acquired with the proceeds of the loan secured by such purchase money security interests or CAPITAL LEASE OBLIGATIONS and that the aggregate amount of INDEBTEDNESS incurred in any FISCAL YEAR secured by any such purchase money security interests and CAPITAL LEASE OBLIGATIONS does not exceed Five Hundred Thousand Dollars ($500,000.00) at any one time outstanding; (e) LIENS of carriers, warehousemen, suppliers, or other PERSONS that are possessory in nature arising in the ordinary course of business so long as such LIENS attach only to INVENTORY and which are not delinquent by more than forty-five (45) days or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto and for which the BORROWER has established appropriate reserves; (f) banker's LIENS, rights of setoff and LIENS in favor of financial institutions incurred in the ordinary course of business arising in connection with the BORROWER'S or any SUBSIDIARY'S deposit accounts or securities accounts held at such institutions

solely to secure payment of fees and similar costs and expenses; (g) LIENS arising from judgments, decrees or attachments in circumstances not constituting an EVENT OF DEFAULT; and (h) the subsequently arising LIENS which are expressly approved in advance of the creation of any such LIENS by the LENDER in writing; and (i) non-consensual LIENS securing indebtedness in an aggregate amount not to exceed Fifty Thousand Dollars ($50,000.00).

Section 1.71. Person. The term "PERSON" means any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, estate, unincorporated organization, joint venture, court, government or political subdivision or agency thereof, or other legal entity.

Section 1.72. Prohibited Person. The term "PROHIBITED PERSON" means any PERSON (a) that is listed in the annex to, or is otherwise subject to the provisions of, the ANTI-TERRORISM ORDER; (b) that is owned or controlled by, or acting for or on behalf of, any person or entity that is listed in the annex to, or is otherwise subject to the provisions of the ANTI-TERRORISM ORDER; (c) that commits, threatens or conspires to commit or supports "terrorism" as defined in the ANTI-TERRORISM ORDER; (d) that is named as a "specifically designated national (SDN)" on the most current list published by OFAC at its official website, http://www.treas.gov.ofac/t11sdn.pdf or at any replacement website or other replacement official publication of such list; (e) that is covered by International Emergency Economic Powers Act or OFAC; or (f) that is an affiliate (including any principal, officer, immediate family member or close associate) of a PERSON described in one or more of clauses (a) – (e) of this definition.

Section 1.73. PTO. The term "PTO" means the United States Patent and Trademark Office and any substitute or successor agency.

Section 1.74. Receivables. The term "RECEIVABLES" means all of the ACCOUNTS, INSTRUMENTS, DOCUMENTS, GENERAL INTANGIBLES, CHATTEL PAPER, notes, notes receivable, drafts, acceptances, and chooses in action, of the BORROWER, now existing or hereafter created or acquired, and all proceeds and products thereof, and all rights thereto, arising from the sale or lease of or the providing of INVENTORY, GOODS, or services by the BORROWER to ACCOUNT DEBTORS, as well as all other rights, contingent or non-contingent, of any kind of the BORROWER to receive payment, benefit, or credit from any PERSON.

Section 1.75. Records. The term "RECORDS" means correspondence, memoranda, tapes, discs, papers, books and other documents, or transcribed information of any type, whether expressed in ordinary, computer or machine language.

Section 1.76. Regulated Substance. The term "REGULATED SUBSTANCE" means any substance which, pursuant to any ENVIRONMENTAL LAW, is identified as a hazardous substance (or other term having similar import) or is otherwise subject to special requirements in connection with the use, storage, transportation, disposition or other handling thereof.

Section 1.77. Release. The term "RELEASE" means a "release" as defined in Section 101(22) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as now or hereafter amended.

Section 1.78. Responsible Officer. The term "RESPONSIBLE OFFICER" means the BORROWER'S President/Chief Executive Officer and Chief Financial Officer.

Section 1.79. Restricted Payment. The term "RESTRICTED PAYMENT" means collectively: (a) any dividend or other payment or distribution, direct or indirect, on ACCOUNT of any equity interest

in the BORROWER now or hereafter outstanding, except a dividend or distribution payable solely in the same class or type of equity interest to the holders of that class or type; (b) any redemption, conversion, exchange, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, by the BORROWER of any equity interest in the BORROWER now or hereafter outstanding; (c) any payment made by the BORROWER to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire equity interests in the BORROWER now or hereafter outstanding; or (d) any payment by the BORROWER of any management, consulting or similar fees which are not in amounts comparable to sums paid in the marketplace for similar services to unrelated employees for services actually performed.

Section 1.80. Sanctioned Country. The term "SANCTIONED COUNTRY" means a country subject to the sanctions program identified on the list maintained by OFAC and available at http://www.treas.gov/offices/eotffc/ofac/sanctions/index.html or as otherwise published from time to time.

Section 1.81. Sanctioned Person. The term "SANCTIONED PERSON" means (a) a PERSON named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at http://www.treas.gov/offices/eotffc/ofac/sdn/index.html or as otherwise published from time to time, or (b) (i) an agency of the government of a SANCTIONED COUNTRY, (ii) an organization controlled by a SANCTIONED COUNTRY, or (iii) a PERSON resident in a SANCTIONED COUNTRY, to the extent subject to a sanctions program administered by OFAC.

Section 1.82. Solvent. The term "SOLVENT" means, as to any referenced PERSON, that as of the date of determination both: (a) (i) the then fair saleable value of the property of such PERSON is greater than the total amount of liabilities (including contingent liabilities) of such PERSON and is not less than the amount that will be required to pay the probable liabilities on such PERSON'S then existing debts as they become absolute and matured considering all financing alternatives and potential asset sales reasonably available to such PERSON; (ii) such PERSON'S capital is not unreasonably small in relation to its business or any contemplated or undertaken transaction; and (iii) such PERSON does not intend to incur, or believe (nor should it reasonably believe) that it will incur, debts beyond its ability to pay such debts as they become due; and (b) such PERSON is "solvent" within the meaning given that term and similar terms under applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

Section 1.83. Subordinated Debt. The term "SUBORDINATED DEBT" means INDEBTEDNESS of the BORROWER owed to ALJ Regional Holdings, Inc. which has been subordinated to the OBLIGATIONS pursuant to a written agreement between the LENDER and ALJ Regional Holdings, Inc.

Section 1.84. Subsidiary. The term "SUBSIDIARY" means, with respect to any PERSON, any other PERSON of which securities or other ownership interests representing an aggregate of fifty percent (50%) or more of the equity or the ordinary voting power are, at the time as of which any determination is being made, owned or controlled directly, or indirectly through one or more intermediaries, by such PERSON.

Section 1.85. Synthetic Lease Obligation. The term "SYNTHETIC LEASE OBLIGATION" means the monetary obligation of a PERSON under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such PERSON but which, upon the insolvency or bankruptcy of such

PERSON, would be characterized as the indebtedness of such PERSON.

Section 1.86. Tangible Net Worth. The term "TANGIBLE NET WORTH" means the BORROWER'S assets, excluding all intangible assets, including, but not limited to, all goodwill, INTELLECTUAL PROPERTY, and sums owed from officers, members and AFFILIATES, minus TOTAL LIABILITIES, all as determined in accordance with G.A.A.P.

Section 1.87. Termination Event. The term "TERMINATION EVENT" means: (a) a "Reportable Event" described in Section 4043 of ERISA and the regulations issued thereunder, but not including any such event for which the 30-day notice requirement has been waived by applicable regulation; (b) the withdrawal of the BORROWER or an ERISA AFFILIATE of the BORROWER from a GUARANTEED PENSION PLAN during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; (c) the filing of a notice of intent to terminate a GUARANTEED PENSION PLAN or the treatment of a GUARANTEED PENSION PLAN amendment as a termination under Section 4041 of ERISA; (d) the institution of proceedings to terminate a GUARANTEED PENSION PLAN by the Pension Benefit Guaranty Corporation; (e) the withdrawal or partial withdrawal of the BORROWER or an ERISA AFFILIATE of the BORROWER from a MULTIEMPLOYER PLAN; or (f) any other event or condition which might reasonably be expected to constitute grounds under ERISA for the termination of, or the appointment of a trustee to administer, any GUARANTEED PENSION PLAN.

Section 1.88. Total Liabilities. The term "TOTAL LIABILITIES" means all liabilities as determined in accordance with G.A.A.P.

Section 1.89. Trademarks. The term "TRADEMARKS" means, collectively, all trademarks, service marks, certification marks, trade names, slogans, logos, trade dress, domain names , and other similar source identifiers, whether statutory or common law, whether registered or unregistered, and whether established or registered in the United States or any other country or any political subdivision thereof, together with any and all: (a) registrations and applications for any of the foregoing; (b) goodwill connected with the use thereof and symbolized thereby; (c) rights and privileges arising under applicable law with respect to the use of any of the foregoing; (d) reissues, continuations, extensions and renewals thereof; (e) income, fees, royalties, damages and payments now and hereafter due and/or payable thereunder and with respect thereto, including damages, claims and payments for past, present or future infringements, dilutions or other violations thereof; (f) rights to sue for past, present and future infringements, dilutions or other violations thereof; and (g) rights corresponding thereto throughout the world.

Section 1.90. Trademark Security Agreement. The term "TRADEMARK SECURITY AGREEMENT" means the Trademark Security Agreement dated as of the date hereof, made by and between the BORROWER and the LENDER.

Section 1.91. UCC. The term "UCC" means the Uniform Commercial Code, as adopted and amended in the Commonwealth of Virginia.

Section 1.92. Unfunded Capital Expenditures. The term "UNFUNDED CAPITAL EXPENDITURES" means for any applicable period, capital expenditures made by any of the COMPANIES during such period, excluding any capital expenditures paid from proceeds of INDEBTEDNESS (other than proceeds of INDEBTEDNESS arising from borrowings under any working capital line of credit or similar short term financing, such as the LOAN).

ARTICLE 2.
TERMS OF THE LOAN

Section 2.1. Conditions Precedent. As a condition to CLOSING, LENDER shall have received, or concluded, the following in form and substance to LENDER:

Section 2.1.1. Loan Documents. The following LOAN DOCUMENTS shall be fully executed and delivered: this AGREEMENT, the TRADEMARK SECURITY AGREEMENT, and the NOTE.

Section 2.1.2. Insurance. Insurance certificates showing coverage limits acceptable to the LENDER.

Section 2.1.3. No Adverse Change. There shall exist no material adverse change in the business, assets, liabilities, operations, financial conditions or executive management of the BORROWER since June 30, 2014.

Section 2.1.4. Representations And Warranties. Each of the representations and warranties set forth in this AGREEMENT shall be true, accurate, and complete in all material respects.

Section 2.1.5. Liens. Satisfactory evidence that the LENDER'S LIENS securing the OBLIGATIONS will be first priority LIENS subject only to PERMITTED LIENS.

Section 2.2. Agreement To Extend The Loan. Subject to the terms and conditions stated herein, the LENDER agrees to extend the LOAN to the BORROWER. The LENDER shall advance proceeds of the LOAN to the BORROWER by depositing into the COMMERCIAL ACCOUNT or in accordance with such other procedures as may be agreed to between the LENDER and the BORROWER, such sums as the BORROWER may request, provided that the OUTSTANDING AMOUNT shall never exceed at any time the MAXIMUM LOAN AMOUNT. The BORROWER shall not request or permit any advance of proceeds of the LOAN which would cause the OUTSTANDING AMOUNT to exceed the MAXIMUM LOAN AMOUNT. In the event that the OUTSTANDING AMOUNT ever exceeds the MAXIMUM LOAN AMOUNT, the BORROWER shall immediately, upon the demand of the LENDER, reduce the OUTSTANDING AMOUNT of the LOAN to an amount which is not in excess of the MAXIMUM LOAN AMOUNT. Any termination of the LOAN by the LENDER in accordance with the terms hereof shall relieve the LENDER of the LENDER'S obligation to lend money or to make financial accommodations to or for the BORROWER, and shall in no way release, terminate, discharge or excuse the BORROWER from its absolute duty to pay or perform the OBLIGATIONS. Any provision of this AGREEMENT to the contrary notwithstanding, at the request of the BORROWER, the LENDER may in its sole discretion (but shall have absolutely no obligation to) make advances under the LOAN to the BORROWER in amounts that result in an OVERADVANCE; provided, that (a) no such event or occurrence shall cause or constitute a waiver of the LENDER'S right to refuse to make any further OVERADVANCE, or issue any LETTERS OF CREDIT, at any time that an OVERADVANCE exists, and (b) no advances resulting in an OVERADVANCE shall be made when there is an EVENT OF DEFAULT.

Section 2.3. Conditions Precedent To Each Advance. The obligation of the LENDER to make any advances under the LOAN, or issue any LETTER OF CREDIT, shall be subject to each of the following conditions precedent:

Section 2.3.1. No Defaults Or Events Of Default. No event shall have occurred on or prior to such date and be continuing on such date, and no condition shall exist on such date, which constitutes a DEFAULT or EVENT OF DEFAULT.

Section 2.3.2. Continuing Accuracy Of Representations And Warranties. Each of the representations and warranties made by or on behalf of the BORROWER to the LENDER in the LOAN DOCUMENTS shall be true and correct in all material respects when made and shall be deemed to be repeated as true, accurate and complete in all material respects as of the date of the BORROWER'S request for each advance.

Section 2.3.3. Receipt Of Reports. The LENDER shall be in receipt of all reports, financial statements, financial information and financial disclosures required by the LOAN DOCUMENTS, except to the extent that the LENDER has waived the receipt thereof.

Section 2.3.4. No Illegalities. It shall not be unlawful for the LENDER to perform any of the agreements or obligations imposed upon the LENDER by any of the LOAN DOCUMENTS or for the BORROWER to perform any of its agreements or obligations as provided by the LOAN DOCUMENTS.

Section 2.3.5. No Material Adverse Event. No MATERIAL ADVERSE EVENT shall have occurred and be then continuing.

Section 2.3.6. Landlord Waivers. The BORROWER shall have made commercially reasonable efforts to deliver the landlord waivers set forth on Schedule 2.3.6 to LENDER within thirty (30) days after CLOSING, it being understood and agreed that in no event shall Borrower be required to make any payments (to a landlord or otherwise) to satisfy such requirement to have made commercially reasonable efforts to obtain such landlord waivers.

Section 2.3.7. Insurance Endorsements. The LENDER shall have received insurance endorsements in accordance with Section 5.2 reasonably satisfactory to LENDER.

Section 2.4. Interest And Lender's Records. All sums advanced under the LOAN shall be evidenced by, and shall be repaid with interest in accordance with, the provisions of the NOTE, the terms and conditions of which are incorporated herein by reference. The date and amounts of each advance made by the LENDER and each payment made by the BORROWER shall be recorded by the LENDER on the books and records of the LENDER, but any failure to record such dates or amounts shall not relieve the BORROWER of its duties and obligations under the LOAN DOCUMENTS. Interest accrued upon the LOAN shall be computed on outstanding balances as reflected on the LENDER'S books and records.

Section 2.5. Unused Fee. For each calendar quarter or portion thereof during which the LOAN is in existence and has not been terminated, until the termination of the LOAN, the BORROWER shall pay to the LENDER an unused fee of one-quarter percent (.25%) per annum on that sum obtained by subtracting the average daily OUTSTANDING AMOUNT during such calendar quarter or portion thereof from the DOLLAR CAP. The unused fee shall be payable quarter in arrears, on the first day of each succeeding January, April, July and October or on the last day of a portion of a quarter commencing with the first of such payments to be made on October 1, 2014. The unused fee is not to be considered a fee being paid by the BORROWER to the LENDER as an inducement to the LENDER to make advances, nor shall it be considered to modify or limit the ability of the LENDER to terminate in accordance with the provisions of this AGREEMENT the ability of the BORROWER to borrow under the LOAN, but is instead intended as part of the compensation which is earned by the LENDER for agreeing to provide the

LOAN in accordance with the terms of the LOAN DOCUMENTS.

Section 2.6. Term. All sums outstanding under the LOAN shall be paid in full on the date occurring two (2) years after CLOSING, unless such date is extended by written notice from the LENDER to the BORROWER.

Section 2.7. Purpose. The proceeds of the LOAN shall be used by the BORROWER solely for funding the general working capital needs of the BORROWER.

Section 2.8. Letters Of Credit.

Section 2.8.1. Issuance Of Letters Of Credit. The LENDER may in its discretion issue LETTERS OF CREDIT as requested by the BORROWER, provided that no DEFAULT or EVENT OF DEFAULT has occurred and is continuing and provided that: (a) the OUTSTANDING AMOUNT does not exceed the MAXIMUM LOAN AMOUNT; and (b) the aggregate amount of LC OBLIGATIONS does not exceed Two Hundred Fifty Thousand Dollars ($250,000.00). No LETTER OF CREDIT shall have an expiry date more than twelve (12) months after the date of issuance. Any amounts paid by the LENDER in connection with any LETTER OF CREDIT shall be treated as an advance of proceeds of the LOAN, shall be secured by all of the COLLATERAL, and shall bear interest (including the default rate of interest) and be payable at the same rate and in the same manner as the LOAN.

Section 2.8.2. Rights And Remedies Of The Lender. If any LETTER OF CREDIT is drawn upon to discharge any obligation of the BORROWER to the beneficiary of such LETTER OF CREDIT, in whole or in part, the LENDER shall be fully subrogated to the rights of such beneficiary with respect to the obligations owed by the BORROWER to such beneficiary discharged with the proceeds of the LETTER OF CREDIT.

Section 2.8.3. Indemnification. The BORROWER unconditionally and irrevocably agree to indemnify the LENDER and to hold the LENDER harmless from any and all losses, claims or liabilities arising from any transactions or occurrences relating to LETTERS OF CREDIT issued, established, opened or accepted for the account of the BORROWER, and any drafts or acceptances thereunder, and all obligations incurred in connection therewith, other than losses, claims or liabilities arising from the gross negligence or wanton misconduct of the LENDER.

Section 2.8.4. Reimbursement Obligations. The BORROWER agrees to reimburse the LENDER on the day of drawing (or upon such later date as the BORROWER receive notice of the payment of the presented draft by the LENDER) upon any LETTER OF CREDIT (either with the proceeds of the LOAN obtained hereunder or otherwise) in same day funds in the amount of the drawing. If the BORROWER fail to reimburse the LENDER as provided herein or as provided in any separate letter of credit application agreements or other LOAN DOCUMENTS, the unreimbursed amount of such drawing shall bear interest at a per annum rate equal to the highest interest rate (including the default rate of interest) applicable to the LOAN. The BORROWER'S reimbursement obligations hereunder shall be absolute and unconditional under all circumstances irrespective of any rights of set-off, counterclaim or defense to payment the BORROWER may claim or have against the LENDER, the beneficiary of the LETTER OF CREDIT or any other PERSON, including, without limitation, any defense based on any failure of the BORROWER to receive consideration or the legality, validity, regularity or unenforceability of the LETTER OF CREDIT or any irregularities in the presentment of the draft presented upon the LETTER OF CREDIT.

Section 2.8.5. Fees, Charges And Other Terms. The BORROWER shall pay to the LENDER: (a) with the issuance of each LETTER OF CREDIT an issuance fee of Two Hundred Twenty-

Five Dollars ($225.00); (b) with the issuance of each LETTER OF CREDIT a fee in an amount equal to four percent (4.0%) per annum of the face amount of the LETTER OF CREDIT; and (c) upon any amendment of any LETTER OF CREDIT, the LENDER'S then standard fee for such amendment. The BORROWER shall also execute such applications, reimbursement agreements, or other documents as the LENDER requires from time to time with respect to the issuance, extension, amendment, or any other requested or required action concerning a LETTER OF CREDIT.

Section 2.9. Reserved

Section 2.10. Capital Adequacy. If the LENDER determines at any time that the adoption or implementation of any CAPITAL ADEQUACY REQUIREMENT, or the compliance therewith by the LENDER or any corporation or other PERSON controlling the LENDER, affects the amount of capital to be maintained by the LENDER or any PERSON controlling the LENDER as a result of its obligations hereunder, or reduces the effective rate of return on the LENDER'S or such controlling PERSON'S capital to a level below that which the LENDER or such controlling PERSON would have achieved but for such CAPITAL ADEQUACY REQUIREMENT as a consequence of its obligations hereunder (taking into consideration the LENDER'S or such controlling PERSON'S policies with respect to capital adequacy), then after submission by the LENDER to the BORROWER of a written request therefore and a statement of the basis for such determination, the BORROWER shall pay to the LENDER such additional amounts as will compensate the LENDER or the controlling PERSON for the cost of maintaining the increased capital or for the reduction in the rate of return on capital, together with interest thereon at the highest rate of interest then in effect under the NOTE from the date the LENDER requests such additional amounts until those amounts are paid in full.

Section 2.11. Payments. All payments received by the LENDER which are to be applied to reduce the OBLIGATIONS shall be credited to the balances due from the BORROWER pursuant to the normal and customary practices of the LENDER. If any payment is avoided or set aside under any provision of the United States Bankruptcy Code, including Sections 547 and 550, or any state law governing insolvency or creditors' rights, the payment shall be considered not to have been made for all purposes of this AGREEMENT and the LENDER shall adjust its records to reflect the fact that the avoided payment was not made and has not been credited against the OBLIGATIONS.

Section 2.12. Advancements. If the BORROWER fail to perform any of its agreements or covenants contained in this AGREEMENT or if the BORROWER fail to protect or preserve the COLLATERAL or the status and priority of the security interest of the LENDER in the COLLATERAL, the LENDER may make advances to perform the same on behalf of the BORROWER to protect or preserve the COLLATERAL or the status and priority of the security interest of the LENDER in the COLLATERAL, and all sums so advanced shall immediately upon advance become secured by the security interests granted in this AGREEMENT, and shall become part of the principal amount owed to the LENDER with interest to be assessed at the applicable rate thereon and subject to the terms and provisions of this AGREEMENT and all of the LOAN DOCUMENTS. The BORROWER shall repay on demand all sums so advanced on the BORROWER'S behalf, plus all expenses or costs incurred by the LENDER, including reasonable legal fees, with interest thereon at the highest rate authorized in the NOTE. The provisions of this Section shall not be construed to prevent the institution of the rights and remedies of the LENDER upon the occurrence and during the continuance of an EVENT OF DEFAULT. The authorization contained in this Section is not intended to impose any duty or obligation on the LENDER to perform any action or make any advancement on behalf of the BORROWER and is intended to be for the sole benefit and protection of the LENDER.

Section 2.13. Payment Absolute. All payments of the OBLIGATIONS, including, without limitation, principal, interest, prepayments and fees, shall be paid by the BORROWER without setoff,

recoupment or counterclaim to the LENDER at the LENDER'S office specified in the NOTE in United States Dollars and in immediately available funds not later than 12:00 noon on the due date of such payment. All payments received by the LENDER after 12:00 p.m. shall, at the option of the LENDER, be deemed received on the next succeeding BUSINESS DAY and any applicable interest or fee shall continue to accrue.

Section 2.13.1. Alternatively, at its sole discretion, the LENDER may, with prior written notice to the BORROWER, charge any deposit account of the BORROWER at the LENDER with all or any part of any amount due hereunder to the extent that the BORROWER has not otherwise tendered payment to the LENDER. All payments shall be applied to the OBLIGATIONS in such order as the LENDER may elect.

Section 2.13.2. The BORROWER also hereby authorizes the LENDER to make advances under the LOAN to make payment of all principal, interest and fees to be made hereunder and under the other LOAN DOCUMENTS. The LENDER may, but shall not be obligated to, discharge the BORROWER'S payment obligations hereunder by so making advances under the LOAN.

Section 2.13.3. If any payment to be made by the BORROWER shall come due on a day other than a BUSINESS DAY, payment shall be made on the next following BUSINESS DAY, and such extension of time shall be reflected in computing interest or fees, as the case may be.

Section 2.13.4. A notice from the LENDER to the BORROWER with respect to any amount owing under this Section shall be conclusive, absent manifest error.

## ARTICLE 3.
## SECURITY FOR THE OBLIGATIONS

The payment, performance and satisfaction of the OBLIGATIONS shall be secured by the following assurances of payment and security.

Section 3.1. Grant Of Security Interest. In order to secure the repayment and performance of all OBLIGATIONS, both currently existing and arising in the future, the BORROWER grants to the LENDER an immediate and continuing security interest in and to the COLLATERAL. The BORROWER further pledges, hypothecates and grants to the LENDER a continuing security interest in and to, all amounts that may be owing at any time and from time to time by the LENDER to the BORROWER in any capacity, including but not limited to any balance or share belonging to the BORROWER of any deposit or other account with the LENDER, which security interest shall be independent of and in addition to any right of set-off to which the LENDER may be entitled.

Section 3.2. Proceeds And Products. The LENDER'S security interests provided for herein shall apply to the proceeds, including but not limited to insurance proceeds, and the products of the COLLATERAL.

Section 3.3. Priority Of Security Interests. Each of the security interests, pledges, and LIENS granted by the BORROWER to the LENDER pursuant to any of the LOAN DOCUMENTS shall be the only security interests, pledges, and LIENS in the COLLATERAL other than the PERMITTED LIENS, and such security interests, pledges and LIENS in the COLLATERAL of the LENDER: (a) in which a security interest may be perfected by filing a financing statement under the UCC, subject to the filing of any such financing statement; and (b) constituting INSTRUMENTS, CHATTEL PAPER, and certificated INVESTMENT PROPERTY, subject to the deliveries contemplated under this AGREEMENT, in each case, shall be perfected first priority security interests, pledges, and LIENS, subject only to the

PERMITTED LIENS.

Section 3.4. Future Advances. The security interests, liens, and pledges granted by the BORROWER to the LENDER pursuant to the LOAN DOCUMENTS shall secure all current and all future advances made by the LENDER to the BORROWER under this AGREEMENT, or for the account or benefit of the BORROWER, and the LENDER may advance or readvance upon repayment by the BORROWER all or any portion of the sums loaned to the BORROWER under this AGREEMENT and any such advance or readvance shall be fully secured by the security interests, liens, and pledges created by the LOAN DOCUMENTS.

Section 3.5. Receivable Collections. The BORROWER shall deposit into the COMMERCIAL ACCOUNT, immediately upon receipt thereof, all cash, checks, drafts, and other instruments for the payment of money, properly endorsed, which have been received by the BORROWER in full or partial payment of any RECEIVABLE; provided, the BORROWER shall, if requested in writing by the LENDER upon the occurrence and during the continuance of an EVENT OF DEFAULT, deposit or cause to be deposited into the COLLATERAL ACCOUNT all of such items of payment immediately upon receipt thereof. Upon the written request of the LENDER at any time upon the occurrence and during the continuance of an EVENT OF DEFAULT, the BORROWER shall instruct all of its ACCOUNT DEBTORS to make all payments on the BORROWER'S RECEIVABLES to a post office box in which the LENDER alone shall have sole access ("LOCK BOX"). If payment of the BORROWER'S RECEIVABLES is paid into the LOCK BOX the LENDER shall, on each BUSINESS DAY, withdraw the items of payment from the LOCK BOX and deposit them into the COLLATERAL ACCOUNT. The BORROWER shall deposit all items of payment in the COMMERCIAL ACCOUNT or the COLLATERAL ACCOUNT, as the case may be, in precisely the form received, except for the endorsements of the BORROWER where necessary to permit the collection of any such items of payment, which endorsement the BORROWER hereby agrees to make. In the event the BORROWER fails to do so, the BORROWER hereby authorizes the LENDER to make the endorsement in the name of the BORROWER. Prior to any such deposit by the BORROWER into the COMMERCIAL ACCOUNT or the COLLATERAL ACCOUNT, as the case may be, the BORROWER will not commingle such items of payment with any of its other funds or property but will hold them separate and apart. In the event the items of payment are required to be deposited into the COLLATERAL ACCOUNT pursuant to the term set forth above, the following terms shall apply:

Section 3.5.1. The BORROWER hereby authorizes the LENDER, upon the occurrence and during the continuance of an EVENT OF DEFAULT and in accordance with the terms hereof, to (a) inspect all items of payment, (b) endorse all items of payment in the name of the BORROWER, and (c) deposit items of payment in the COLLATERAL ACCOUNT. The LENDER reserves the right, exercised in its sole and absolute discretion from time to time, to provide to the COLLATERAL ACCOUNT credit prior to final collection of an item of payment and to disallow credit for any item of payment that is unsatisfactory to LENDER.

Section 3.5.2. In the event items of payment are returned to the LENDER for any reason whatsoever, the LENDER may, in the exercise of its discretion from time to time, forward such items of payment a second time. Any returned items of payment shall be charged back to the COLLATERAL ACCOUNT and any credit given the BORROWER with respect thereto shall be reversed.

Section 3.5.3. The LENDER will credit all payments received in the COLLATERAL ACCOUNT to the OBLIGATIONS, in such order of application as the LENDER determines, conditional upon final collection. Credit will be given only for cleared funds received prior to 2:00 p.m. (New York time) by the LENDER at its COLLATERAL ACCOUNT, provided, however, that for purposes of

calculating interest due to the LENDER, credit will be given to collections two (2) BUSINESS DAYS after receipt of cleared funds. In all cases, the OBLIGATIONS will be credited only with the net amounts actually received in the COLLATERAL ACCOUNT.

Section 3.6. Maintenance Of Accounts. As further security for the OBLIGATIONS, the BORROWER shall maintain its primary accounts and treasury management services with the LENDER.

Section 3.7. Further Assurances. The BORROWER will, at its expense, promptly execute and deliver all further instruments and documents and take all further action that may be necessary or desirable or that the LENDER may reasonably request from time to time in order: (a) to perfect and protect the security interests to be created hereby; (b) to enable the LENDER to exercise and enforce its rights and remedies hereunder in respect of the COLLATERAL; or (c) otherwise to effect the purposes of this AGREEMENT, including, without limitation: (i) upon the BORROWER'S acquisition thereof, delivering to the LENDER each item of CHATTEL PAPER of the BORROWER with a face amount or value in excess of $50,000, (ii) if any RECEIVABLES are evidenced by an INSTRUMENT with a face amount or value in excess of $50,000 delivering and pledging to the LENDER such INSTRUMENT duly endorsed and accompanied by executed instruments of transfer or assignment, all in form and substance satisfactory to the LENDER, (iii) delivering to the LENDER all DOCUMENTS evidencing any material INVENTORY unless the LENDER agrees in writing that the BORROWER may maintain possession of such DOCUMENTS, and (iv) upon the acquisition after the date hereof of any COLLATERAL with a value in excess of $50,000 for which an assignment, pledge, mortgage, or other document is required to be filed in order to grant or perfect a LIEN therein for the benefit of the LENDER, execute and deliver to the LENDER such assignment, pledge, mortgage, or other INSTRUMENT within thirty (30) days (or such later date as the LENDER may agree in its discretion) of the acquisition thereof. If the BORROWER fails to execute any instrument or document described above within ten (10) BUSINESS DAYS of being requested to do so by the LENDER, the BORROWER hereby appoints the LENDER or any officer of the LENDER as the BORROWER'S attorney in fact for purposes of executing such instruments or documents in the BORROWER'S name, place and stead, which power of attorney shall be considered as coupled with an interest and irrevocable. Notwithstanding the aforegoing to the contrary, the BORROWER shall not be required to execute or deliver any instruments or documents in order to perfect the LENDER'S lien in (i) EQUIPMENT covered by a certificate of title, (ii) leasehold interests in assets, or (iii) "Intent to Use" applications for trademarks or service marks registrations. Subject to applicable law, the BORROWER shall cause each of its DOMESTIC SUBSIDIARIES (that is not a SUBSIDIARY of a FOREIGN SUBSIDIARY) formed or acquired after the date hereof in accordance with the terms of this AGREEMENT to become a GUARANTOR by executing a guaranty agreement, in form and substance satisfactory to LENDER. Upon execution and delivery thereof, each such PERSON (i) shall automatically become a GUARANTOR and thereupon shall have all of the rights, benefits, duties, and obligations in such capacity under the LOAN DOCUMENTS and, subject to PERMITTED LIENS, will grant LIENS to LENDER, in any property of such GUARANTOR which constitutes COLLATERAL. BORROWER, and each SUBSIDIARY of the BORROWER shall cause (i) 100% of the issued and outstanding CAPITAL STOCK of each of its DOMESTIC SUBSIDIARIES to be subject at all times to a perfected LIEN in favor of LENDER pursuant to the terms and conditions of the LOAN DOCUMENTS as LENDER shall reasonably request.

Section 3.8. After-Acquired Intellectual Property Collateral. If the BORROWER shall, at any time after the date hereof, obtain any ownership or other rights in and to any additional INTELLECTUAL PROPERTY, then the provisions of this AGREEMENT shall automatically apply thereto and any such INTELLECTUAL PROPERTY (other than any EXCLUDED PROPERTY) shall automatically constitute COLLATERAL and shall be subject to the lien and security interest created by this AGREEMENT, without further action by any party. The BORROWER shall provide to the LENDER written notice of any such additional INTELLECTUAL PROPERTY (excluding "Intent to Use" applications for

trademarks or service marks registrations) material to the BORROWER'S business which is the subject of a registration or application in the United States (including INTELLECTUAL PROPERTY which was theretofore unregistered and becomes the subject of a registration or application in the United States) and deliver to the LENDER an instrument in form and substance reasonably acceptable to the LENDER, and undertake the filing of any instruments or statements reasonably requested in writing by the LENDER as shall be reasonably necessary to create, record, preserve, protect or perfect the LENDER'S lien and security interest in such INTELLECTUAL PROPERTY COLLATERAL. The BORROWER shall provide such notice and deliver the appropriate agreements and make any filings requested in writing, in each case to the extent required under this section, by the end of the calendar quarter in which the BORROWER'S acquisition of the INTELLECTUAL PROPERTY rights occurred; provided that if any such acquisition occurred within the last twenty (20) days of such calendar quarter, the BORROWER may complete such actions by the end of the following calendar quarter.

## ARTICLE 4.
## REPRESENTATIONS AND WARRANTIES

To induce the LENDER to extend the LOAN and to enter into this AGREEMENT, the BORROWER makes the representations and warranties set forth in this Article 4. The BORROWER acknowledges the LENDER'S justifiable right to rely upon these representations and warranties.

Section 4.1. Accuracy Of Information. All information submitted by or on behalf of the BORROWER in connection with any of the OBLIGATIONS is, taken as a whole, true, accurate and complete in all material respects as of the date made and contains no knowingly false, incomplete or misleading statements.

Section 4.2. No Litigation. There are no actions, suits, investigations, or proceedings pending or, to the knowledge of the BORROWER, threatened in writing against the BORROWER or the assets of the BORROWER not covered by insurance, which, if determined adversely to the BORROWER could require the BORROWER to pay over more than One Hundred Fifty Thousand Dollars ($150,000.00) in the aggregate, except as specifically disclosed on Schedule 4.2 attached hereto.

Section 4.3. No Liability Or Adverse Change. The BORROWER has no direct or contingent liability known to the BORROWER and not previously disclosed to the LENDER, nor does the BORROWER know of or have any reason to reasonably expect any material adverse change in the BORROWER'S assets, liabilities, properties, business, or condition, financial or otherwise.

Section 4.4. Title To Collateral. The BORROWER has good and marketable title to the COLLATERAL. The LIENS granted by the BORROWER to the LENDER in the COLLATERAL will have the priority required by the LOAN DOCUMENTS.

Section 4.5. Authority; Approvals And Consents.

Section 4.5.1. Authority. The BORROWER has the legal authority to enter into each of the LOAN DOCUMENTS and to perform, observe and comply with all of the BORROWER'S agreements and obligations thereunder, including, without limitation the borrowings contemplated hereby.

Section 4.5.2. Approvals. The execution and delivery by the BORROWER of each of the LOAN DOCUMENTS, the performance by the BORROWER of all of its agreements and obligations under the LOAN DOCUMENTS, and the borrowings contemplated by this AGREEMENT, have been duly authorized by all necessary action on the part of the BORROWER and do not and will not (i)

contravene any provision of the organizational documents of the BORROWER; (ii) materially conflict with, or result in a material breach of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any LIEN upon any of the property of the BORROWER under any agreement, trust deed, indenture, mortgage or other instrument to which the BORROWER is a party or by which the BORROWER or any property of the BORROWER is bound or affected (except for LIENS created for the benefit of the LENDER); (iii) violate or contravene any provision of any LAW, rule or regulation (including, without limitation, Regulations G, T, U or X of the Board of Governors of the Federal Reserve System) or any order, ruling or interpretation thereunder or any decree, order of judgment of any court or governmental or regulatory authority, bureau, agency or official (all as from time to time in effect and applicable to the BORROWER); or (iv) require any waivers, consents or approvals by any of the creditors of the BORROWER.

Section 4.5.3. Consents. Other than filings and recordings required to perfect the security interests and LIENS granted hereunder, no approval, consent, order, authorization or license by, or giving notice to, or taking any other action with respect to, any governmental or regulatory authority or agency is required for the execution and delivery by the BORROWER of the LOAN DOCUMENTS or for the performance by the BORROWER of any of the agreements and obligations thereunder.

Section 4.6. Binding Effect Of Documents, Etc. Each of the LOAN DOCUMENTS which the BORROWER has executed and delivered as contemplated and required to be executed and delivered as of the date of CLOSING by this AGREEMENT, has been duly executed and delivered by the BORROWER and is the legal, valid and binding obligation of the BORROWER and is enforceable against the BORROWER in accordance with all stated terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principals (whether enforcement is sought by proceedings in law or equity).

Section 4.7. Perfection Certificates. All of the information set forth in the Perfection Certificate executed by the BORROWER and delivered to the LENDER prior to the date hereof is, taken as a whole, true, accurate and complete in all material respects and not materially misleading.

Section 4.8. No Events Of Default. There is not currently existing any action, event, or condition which presently constitutes a DEFAULT or an EVENT OF DEFAULT.

Section 4.9. Taxes. All Federal and other material tax returns, reports and statements, including information returns, required by any GOVERNMENTAL AUTHORITY to be filed by the BORROWER or its SUBSIDIARIES have been filed with the appropriate GOVERNMENTAL AUTHORITY, and all material CHARGES have been paid prior to the date on which any fine, penalty, interest or late charge may be added thereto for nonpayment thereof, excluding CHARGES or other amounts being contested in accordance with Section 5.8 and unless the failure to so file or pay would not reasonably be expected to result in fines, penalties or interest. Proper and accurate amounts have been withheld by the BORROWER and its SUBSIDIARIES from its respective employees for all periods in material compliance with all applicable federal, state, local and foreign laws and such withholdings have been timely paid to the respective GOVERNMENTAL AUTHORITIES. Schedule 4.9 sets forth as of the CLOSING those taxable years for which the BORROWER'S or its SUBSIDIARIES' tax returns are currently being audited by the Internal Revenue Service or any other applicable GOVERNMENTAL AUTHORITY and any assessments or threatened assessments in connection with such audit, or otherwise currently outstanding. Except as described in Schedule 4.9, as of the CLOSING, neither the BORROWER nor any SUBSIDIARY thereof has executed or filed with any GOVERNMENTAL AUTHORITY any agreement or other document extending, or having the effect of extending, the period for assessment or collection of any material CHARGES. Neither the BORROWER nor any of its

SUBSIDIARIES is liable for any material CHARGES: (a) under any agreement (including any tax sharing agreements) or (b) to the BORROWER'S knowledge, as a transferee. As of the CLOSING, neither the BORROWER nor any of its SUBSIDIARIES has agreed or been requested to make any adjustment under Section 481(a) of the Code, by reason of a change in accounting method or otherwise, which could reasonably be expected to cause a MATERIAL ADVERSE EVENT.

Section 4.10. Compliance With Laws. The BORROWER has complied in all material respects with all applicable LAWS, including, but not limited to, all LAWS with respect to: (a) all restrictions, specifications, or other requirements pertaining to products that it sells or to the services it performs; (b) the conduct of its business; and (c) the use, maintenance, and operation of the real and personal properties owned or leased by it in the conduct of its business.

Section 4.11. No Subsidiaries. The BORROWER has no SUBSIDIARIES.

Section 4.12. Approvals. The BORROWER possesses all material franchises, approvals, licenses, contracts, merchandising agreements, merchandising contracts and governmental approvals, registrations and exemptions necessary for it lawfully to conduct its business and operation as presently conducted and as anticipated to be conducted after CLOSING.

Section 4.13. Financial Statements. The financial statements of the BORROWER which have been delivered to the LENDER prior to the date of this AGREEMENT, fairly present the financial condition of the BORROWER in all material respects as of the respective dates thereof and the results and operations of the BORROWER in all material respects for the fiscal periods ended on such respective dates, all in accordance with G.A.A.P. The BORROWER has no direct or contingent liability or obligation known to the BORROWER and not disclosed on the financial statements delivered to the LENDER or prior to the date hereof, except as set forth on Schedule 4.13 hereof. There has been no adverse change in the financial condition of the BORROWER since the financial statements of the BORROWER delivered to the LENDER prior to the date hereof, and the BORROWER does not know of or have any reason to reasonably expect any material adverse change in the assets, liabilities, properties, business, or condition, financial or otherwise, of the BORROWER, except as set forth on Schedule 4.13 hereof.

Section 4.14. Employee Relations. Neither the BORROWER nor any SUBSIDIARY of the BORROWER is a party or otherwise subject to any collective bargaining or other agreement with any labor union, nor is any such agreement currently being negotiated. For the past five years, there has not been a representation question before the National Labor Relations Board respecting any of the employees of the BORROWER or the BORROWER'S SUBSIDIARIES and, to the knowledge of BORROWER, there are no campaigns currently being conducted to solicit cards from employees of the BORROWER or the BORROWER'S SUBSIDIARIES to authorize representation by any labor union or labor organization. To the knowledge of the BORROWER, neither the BORROWER nor any of the SUBSIDIARIES of the BORROWER is engaged, or, since January 1, 2011, has been engaged, in any unfair labor practice (as defined under the National Labor Relations Act). For the past five years, there has not been any work stoppage, lockout, strike or labor dispute involving the BORROWER or the BORROWER'S SUBSIDIARY, and no such work stoppage, lockout, strike or labor dispute is pending or, to the knowledge of the BORROWER, threatened in writing to commence.

Section 4.14.1. There are no proceedings pending or, to the knowledge of the BORROWER, threatened in writing against the BORROWER or the BORROWER'S SUBSIDIARY by, on behalf of or with respect to any employee or contractor of the BORROWER or the BORROWER'S SUBSIDIARY (each a "Worker") or group of Workers that would be material to the BORROWER and its SUBSIDIARIES, taken as a whole. There are no charges, investigations, administrative proceedings or

formal complaints of discrimination (including discrimination based upon sex, age, marital status, race, national origin, sexual orientation, disability or veteran status) threatened in writing or pending before the Equal Employment Opportunity Commission, the National Labor Relations Board, the U.S. Department of Labor, the U.S. Occupational Health and Safety Administration, the Workers Compensation Appeals Board, or any other GOVERNMENTAL AUTHORITY against the BORROWER or any of the BORROWER'S SUBSIDIARIES by, on behalf of or with respect to any Worker which would reasonably be expected to, individually or in the aggregate, result in a MATERIAL ADVERSE EVENT.

Section 4.14.2. The BORROWER and the BORROWER'S SUBSIDIARIES are in compliance in all material respects with all LAWS related to the terms and conditions of employment or retention of its Workers, including but not limited to wages and other compensation, overtime requirements, classification of employees and independent contractors under federal and state laws, hours of work, leaves of absence, equal opportunity, immigration, occupational health and safety and workers' compensation.

Section 4.15. Employee Benefit Plans.

Section 4.15.1. Compliance. The BORROWER and its ERISA AFFILIATES are in compliance in all material respects with all applicable provisions of ERISA and the regulations thereunder and of the CODE with respect to all EMPLOYEE BENEFIT PLANS.

Section 4.15.2. Absence Of Termination Event. No TERMINATION EVENT has occurred or is reasonably expected to occur with respect to any GUARANTEED PENSION PLAN.

Section 4.15.3. Actuarial Value. The actuarial present value (as defined in Section 4001 of ERISA) of all benefit commitments (as defined in Section 4001 of ERISA) under each GUARANTEED PENSION PLAN does not exceed the assets of that plan, or if the actuarial present value of all benefit commitments under a GUARANTEED PENSION PLAN does exceed the assets of that plan, such information is set forth in the BORROWER'S financial statements delivered to the LENDER.

Section 4.15.4. No Withdrawal Liability. Neither the BORROWER nor any of its ERISA AFFILIATES has incurred or reasonably expects to incur any withdrawal liability under ERISA in connection with any MULTIEMPLOYER PLANS.

Section 4.16. Environmental Conditions. Neither the conduct nor operation of the BORROWER'S business, nor any condition of any real property currently owned, leased or operated by the BORROWER or any of the BORROWER'S SUBSIDIARIES nor, to the knowledge of the BORROWER , any condition of any real property owned, leased or operated after January 1, 2014 but no longer owned, leased or operated by the BORROWER or any of the BORROWER'S SUBSIDIARIES, is, or to the knowledge of the BORROWER , has since January 1, 2014 been, in material violation of applicable ENVIRONMENTAL LAWS. None of BORROWER nor any SUBSIDIARY has received or been subject to any written notice, proceeding, written order or written information request from any PERSON stating or alleging that the BORROWER or the BORROWER'S SUBSIDIARIES or any of their respective current or former properties or assets (but with respect to former properties or assets, only those properties or assets owned or operated after January 1, 2014) have been or are in violation of any applicable ENVIRONMENTAL LAW or are otherwise liable pursuant to any applicable ENVIRONMENTAL LAW, excluding any such matters that have been fully resolved with no further liability to the BORROWER or the BORROWER'S SUBSIDIARY. To the knowledge of the BORROWER, there have been no spills, disposals or releases of hazardous materials on, at, under, or migrating from any real property currently owned, leased or operated by the BORROWER or the

BORROWER'S SUBSIDIARY, or on, at, under or migrating from any real property owned, leased or operated after January 1, 2014 but no longer owned, leased or operated by the BORROWER or the BORROWER'S SUBSIDIARIES, that is currently or was previously subject to any investigation, remediation or monitoring with respect to hazardous materials, excluding any such matters that have been fully resolved or are not reasonably likely to result in material liability. The BORROWER has provided the LENDER with all material written reports in the possession of the BORROWER or the BORROWER'S SUBSIDIARY related to the BORROWER'S business liability arising from applicable ENVIRONMENTAL LAWS.

Section 4.17. Deposit and Disbursement Accounts. Schedule 4.17 lists all banks and other financial institutions at which the BORROWER maintains deposit or other accounts as of the CLOSING, and such Schedule correctly identifies the name, address and telephone number of each depository, the name in which the account is held, a brief description of the purpose or type of the account, and the complete account number therefore.

Section 4.18. Government Contracts. Except as set forth in Schedule 4.18, as of the CLOSING, the BORROWER is not a party to any contract or agreement with any GOVERNMENTAL AUTHORITY which are subject to the Federal Assignment of Claims Act (31 U.S.C. Section 3727) or any similar state or local law.

Section 4.19. Bonding; Licenses. Except as set forth in Schedule 4.19, as of the CLOSING, the BORROWER is not a party to or bound by any surety bond agreement or bonding requirement with respect to products or services sold by it or any INTELLECTUAL PROPERTY LICENSE agreement with respect to products sold by it.

Section 4.20. Agreements and Other Documents. As of the CLOSING, the BORROWER has provided to the LENDER or its counsel materially accurate and complete copies (or summaries) of all of the following agreements or documents to which it is subject and each of which is listed in Schedule 4.21: (a) supply agreements and purchase agreements not terminable by the BORROWER within sixty (60) days following written notice issued by the BORROWER and involving transactions in excess of Two Hundred Fifty Thousand Dollars ($250,000.00) per annum; (b) leases of equipment having a remaining term of one (1) year or longer and requiring aggregate rental and other payments in excess of Fifty Thousand Dollars ($50,000.00) per annum; (c) licenses and permits held by the BORROWER, the absence of which could be reasonably likely to result in a MATERIAL ADVERSE EVENT; (d) instruments and documents evidencing any INDEBTEDNESS of the BORROWER in excess of Fifty Thousand Dollars ($50,000.00) and any LIEN granted by the BORROWER with respect thereto that will remain in effect after the CLOSING other than those agreements in which the LENDER is a party; and (e) franchise agreements and instruments and agreements evidencing the issuance of any equity securities, warrants, rights or options to purchase equity securities of the BORROWER.

Section 4.21. OFAC Matters. Neither the BORROWER, any SUBSIDIARIES or, to the best of the BORROWER'S knowledge, its AFFILIATES (i) is a SANCTIONED PERSON or (ii) does business in a SANCTIONED COUNTRY or with a SANCTIONED PERSON in violation of the economic sanctions of the United States administered by OFAC. The proceeds of the LOAN will not be used to fund any operation in, finance any investments or activities in or make any payments to, a SANCTIONED PERSON or a SANCTIONED COUNTRY. Neither the BORROWER, any SUBSIDIARY or, to the best of the BORROWER'S knowledge, any AFFILIATES of the foregoing is a PROHIBITED PERSON. Neither the BORROWER nor any of its SUBSIDIARIES or AFFILIATES, to its knowledge, has engaged directly or indirectly in any transaction that evades or avoids, or has the purpose of evading or avoiding, or violates in any material respect the requirements or prohibitions set forth in the ANTI-TERRORISM ORDER or the USA Patriot Act. Neither the making of the LOAN

hereunder or the contemplated use of proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department or any enabling legislation or executive order relating thereto. The BORROWER does not engage in any dealings or transactions with a PERSON described or designated in the Specially Designation Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the ANTI-TERRORISM ORDER ("Designated Person") in violation of any LAW. The BORROWER is in compliance, in all material respects, with the USA Patriot Act.

## ARTICLE 5.
## AFFIRMATIVE COVENANTS

The BORROWER agrees during the term of this AGREEMENT and while any OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) are outstanding and unpaid to do and perform (and to cause each of its SUBSIDIARIES to do and perform as if referenced herein) each of the acts and promises set forth in this Article 5:

Section 5.1. Payment. All OBLIGATIONS shall be paid in full when and as due.

Section 5.2. Insurance. The BORROWER shall obtain and maintain such insurance coverages as are reasonable and customary for businesses engaged in activities similar to the business activities of the BORROWER. Without limitation to the foregoing, the BORROWER shall maintain for all of its assets and properties, whether real, personal, or mixed and including but not limited to the COLLATERAL, fire and extended coverage casualty insurance in amounts satisfactory to the LENDER and sufficient to prevent any co-insurance liability (which amount shall be the full insurable value of the assets and properties insured unless the LENDER in writing agrees to a lesser amount (such consent not to be unreasonably withheld, conditioned or delayed)), naming the LENDER as lender loss payee with respect to the COLLATERAL, with insurance companies and upon policy forms which are acceptable to and approved by the LENDER. The BORROWER shall submit to the LENDER the certificates of the casualty insurance policies and paid receipts evidencing payment of the premiums due on the same. The casualty insurance policies shall be endorsed so as to make them noncancellable unless thirty (30) days prior notice of cancellation is provided to the LENDER. The proceeds of any insured loss shall be applied by the LENDER to the OBLIGATIONS, in such order of application as determined by the LENDER, provided that if no EVENT OF DEFAULT has occurred and is continuing, the LENDER shall permit the use of the insurance proceeds to repair or replace damaged or destroyed COLLATERAL by the BORROWER within 180 days after the LENDER'S receipt of such proceeds before any such application to the OBLIGATIONS, provided such insurance proceeds are delivered to the LENDER and held by the LENDER in a pledged collateral account to be disbursed upon the LENDER'S receipt of reasonably acceptable evidence of the cost of the repair or replacement of the damaged or destroyed COLLATERAL.

Section 5.3. Books And Records. The BORROWER shall notify the LENDER in writing if the BORROWER materially modifies or changes its method of accounting or enters into, modifies, or terminates any material agreement presently existing, or at any time hereafter entered into with any third party accounting firm for the preparation and/or storage of the BORROWER'S accounting records.

Section 5.4. Collection Of Accounts; Sale Of inventory. The BORROWER shall only collect its RECEIVABLES and sell its INVENTORY in the ordinary course of the BORROWER'S business.

Section 5.5. Notice Of Litigation And Proceedings. The BORROWER shall give prompt notice to the LENDER of any action, suit, citation, violation, direction, notice or proceeding before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting the BORROWER, or the assets or properties thereof, which, if determined adversely to

the BORROWER: (a) could require the BORROWER to pay over more than Fifty Thousand Dollars ($50,000.00) or deliver assets the value of which exceeds that sum (whether or not the claim is considered to be covered by insurance); or (b) could reasonably be expected to have a material adverse effect upon the financial condition or business operations of the BORROWER

Section 5.6. Payment Of Liabilities To Third Persons. The BORROWER shall pay when and as due, or within applicable grace periods, all material liabilities due to third persons, except when the amount thereof is being contested in good faith by appropriate proceedings and with adequate reserves therefore being set aside by the BORROWER.

Section 5.7. Notice Of Change Of Business Location. The BORROWER shall notify the LENDER thirty (30) days in advance of: (a) any change in the location of its existing offices or place of business; (b) the establishment of any new, or the discontinuation of any existing, material place of business; and (c) any change in or addition to the locations at which the COLLATERAL is kept. Prior to moving any COLLATERAL (other than fixtures) with a value in excess of $100,000 to any location not owned by the BORROWER (other than deliveries to ACCOUNT DEBTORS of sold or leased items), the BORROWER shall make commercially reasonable efforts to obtain and deliver to the LENDER an agreement, in form and substance reasonably acceptable to the LENDER, pursuant to which the owner of such location shall: (a) subordinate any rights which it may have, or thereafter may obtain, in any of the COLLATERAL to the rights and security interests of the LENDER in the COLLATERAL; and (b) allow the LENDER access to the COLLATERAL in order to remove the COLLATERAL from such location. In the event any COLLATERAL with a value in excess of $100,000 is stored with a warehousemen or other bailee, and such COLLATERAL is evidenced by a negotiable document of title, the BORROWER shall immediately deliver the document of title to the LENDER.

Section 5.8. Payment Of Taxes. The BORROWER shall pay or cause to be paid when and as due all federal and all material local taxes, assessments and charges or levies imposed upon it or on any of its property or which it is required to withhold and pay over to the taxing authority or which it must pay on its income, except where contested in good faith, by appropriate proceedings and at its own cost and expense; provided, however, that the BORROWER shall not be deemed to be contesting in good faith by appropriate proceedings unless: (a) such proceedings operate to prevent the taxing authority from collecting the taxes, assessments or charges; (b) the COLLATERAL is not subject to sale, forfeiture or loss during such proceedings; (c) the BORROWER'S contest does not subject the LENDER to any claim by the taxing authority or any other person; (d) the BORROWER establish appropriate reserves, in accordance with prudent business practices, for the payment of all taxes, assessments, charges, levies, legal fees, court costs and other expenses for which the BORROWER would be liable if unsuccessful in the contest; and (e) at the conclusion of the proceedings, the BORROWER promptly pay all amounts determined to be payable, including but not limited to all taxes, assessments, charges, levies, legal fees and court costs.

Section 5.9. Rights of Inspections, Field Examination, Etc. The BORROWER shall permit authorized representatives of the LENDER to visit and inspect the properties of the BORROWER, to review, audit, check and inspect the COLLATERAL with reasonably prior notice and during normal business hours (unless there is a continuing EVENT OF DEFAULT, in which no notice shall need to be provided), to review, audit, check and inspect the BORROWER'S other books of record with reasonably prior notice and during normal business hours (unless there is a continuing EVENT OF DEFAULT, in which no notice shall need to be provided) and to make abstracts and photocopies thereof, and to discuss the affairs, finances and accounts of the BORROWER with the officers, directors, employees and other representatives of the BORROWER and its accountants, all with reasonably prior notice and at such times during normal business hours (unless there is a continuing EVENT OF DEFAULT, in which no notice shall need to be provided) and other reasonable times and as often as the LENDER may reasonably

request; provided, however, that unless an EVENT OF DEFAULT shall have occurred and be continuing, the BORROWER shall not be liable for any LENDER EXPENSES incurred for more than two (2) such reviews, audits, inspections or other actions taken or made pursuant to this Section per FISCAL YEAR. Except as otherwise provided herein, any and all costs and expenses incurred by, or on behalf of, the LENDER in connection with the conduct of any of the foregoing shall be part of the LENDER EXPENSES and shall be payable to the LENDER upon demand.

Section 5.10. Notice Of Events Affecting Collateral; Compromise Of Receivables; Records. The BORROWER shall promptly report to the LENDER all customer credits and all returns, repossessions and recoveries of INVENTORY, in each case in an amount or with a value in excess of One Hundred Thousand Dollars ($100,000.00).

Section 5.10.1. The BORROWER shall not, without the LENDER'S prior written consent, settle or adjust any dispute or claim, or grant any discount (except ordinary trade discounts), credit or allowance or accept any return of merchandise, except in the ordinary course of its business.

Section 5.10.2. Upon the occurrence and during the continuance of an EVENT OF DEFAULT, the LENDER may (i) settle or adjust disputes or claims directly with ACCOUNT DEBTORS for amounts and upon terms which it considers in good faith to be commercially reasonable and (ii) notify ACCOUNT DEBTORS on the BORROWER'S RECEIVABLES that such RECEIVABLES have been assigned to the LENDER and that payments in respect thereof shall be made directly to the LENDER.

Section 5.10.3. Where the BORROWER sell goods or services to a customer which also sells goods or services to it or which has other legitimate claims against it, the BORROWER will so advise the LENDER immediately to permit the LENDER to establish a reserve therefore.

Section 5.10.4. The BORROWER hereby irrevocably authorizes and appoints the LENDER as its attorney-in-fact, at the BORROWER'S sole cost and expense, to exercise, solely upon the occurrence and during the continuance of an EVENT OF DEFAULT, all of the following powers, which being coupled with an interest, shall be irrevocable until all of the OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) have been paid in full: (A) to receive, take, endorse, sign, assign and deliver, all in the name of the LENDER or the BORROWER, any and all checks, notes, drafts, and other documents or instruments relating to the COLLATERAL; (B) to receive, open and dispose of all mail addressed to the BORROWER and to notify postal authorities to change the address for delivery thereof to such address as the LENDER may designate; and (C) to take or bring, in the name of the LENDER or the BORROWER, all steps, actions, suits or proceedings deemed by the LENDER necessary or desirable to enforce or effect collection of the BORROWER'S RECEIVABLES or file and sign the BORROWER'S name on a proof of claim in bankruptcy or similar document against any obligor of the BORROWER. The BORROWER shall maintain a record of its electronic CHATTEL PAPER that, if in excess of One Hundred Thousand Dollars ($100,000.00), identifies the LENDER as the assignee thereof and otherwise in a manner such that the LENDER has control over such CHATTEL PAPER for purposes of the UCC.

Section 5.11. Documentation Of Collateral. The BORROWER agrees that upon the request of the LENDER, the BORROWER will provide the LENDER with: (a) written statements or schedules identifying and describing any material portion of the COLLATERAL, and all additions, substitutions, and replacements thereof, in reasonable detail; (b) copies of ACCOUNT DEBTORS' material invoices or billing statements; (c) evidence of shipment or delivery of material goods or merchandise to or performance of material services for ACCOUNT DEBTORS; and (d) such other schedules and information as the LENDER reasonably may reasonably require with respect to the COLLATERAL. The failure of the BORROWER to give any of such items to the LENDER shall not affect, terminate, modify

or otherwise limit the LENDER'S security interests in the COLLATERAL. The LENDER shall have the right, upon the occurrence and during the continuance of an EVENT OF DEFAULT, to verify the eligibility of the BORROWER'S RECEIVABLES, including obtaining verification of the RECEIVABLES directly from ACCOUNT DEBTORS.

Section 5.12. Reporting Requirements. The BORROWER shall submit the following items to the LENDER:

Section 5.12.1. Monthly Financial Statements. As soon as available and in any event within forty-five (45) calendar days after the end of each calendar month, the BORROWER shall submit to the LENDER a consolidated balance sheet of the BORROWER and its SUBSIDIARIES as of the end of such month and a consolidated statement of income and retained earnings of the BORROWER and its SUBSIDIARIES for such month, and all prepared in accordance with G.A.A.P. and certified by a RESPONSIBLE OFFICER of the BORROWER (subject to year-end adjustment).

Section 5.12.2. Annual Financial Statements. As soon as available and in any event within ninety (90) calendar days after the end of each FISCAL YEAR of the BORROWER, the BORROWER shall submit to the LENDER a consolidated balance sheet of the BORROWER and its SUBSIDIARIES as of the end of such FISCAL YEAR and a consolidated statement of income and retained earnings of the BORROWER and its SUBSIDIARIES for such FISCAL YEAR, and a consolidated statement of cash flow of the BORROWER and its SUBSIDIARIES for such FISCAL YEAR, all in reasonable detail and stating in comparative form the respective consolidated figures for the corresponding date and period in the prior FISCAL YEAR and all prepared in accordance with G.A.A.P. and reviewed by independent certified public accountants selected by the BORROWER and acceptable to the LENDER.

Section 5.12.3. Management Letters. Promptly upon receipt thereof, the BORROWER shall submit to the LENDER copies of any material reports submitted to the BORROWER or any SUBSIDIARY by independent certified public accountants in connection with the examination of the financial statements of the BORROWER or any SUBSIDIARY made by such accountants.

Section 5.12.4. Certificates Of No Default. Within forty-five (45) calendar days after the end of each of the first three (3) fiscal quarters of each FISCAL YEAR of the BORROWER and within ninety (90) calendar days after the end of the fourth fiscal quarter of each FISCAL YEAR of the BORROWER, the BORROWER shall submit to the LENDER a certificate of a RESPONSIBLE OFFICER of the BORROWER certifying that: (i) there exists no DEFAULT or EVENT OF DEFAULT, or if a DEFAULT or an EVENT OF DEFAULT exists, specifying the nature thereof, the period of existence thereof and what action the BORROWER proposes to take with respect thereto; (ii) no material adverse change in the condition, financial or otherwise, business, property or results of operations of the BORROWER has occurred since the previous certificate was sent to the LENDER by the BORROWER or, if any such change has occurred, specifying the nature thereof and what action the BORROWER has taken or propose to take with respect thereto; (iii) all insurance premiums then due have been paid; (iv) all federal and all material local taxes then due have been paid or, for such taxes which have not been paid, a statement of such taxes not paid and a description of the BORROWER'S rationale therefore; (v) no litigation, investigation or proceedings, or injunction, writ or restraining order is pending or threatened in writing, which, if determined adversely to the BORROWER, could reasonably be expected to have a material adverse effect upon the financial condition or business operations of the BORROWER, or, if any such litigation, investigation, proceeding, injunction, writ or order is pending, describing the nature thereof; and (vi) stating whether or not the BORROWER is in compliance with the covenants in this AGREEMENT, including a calculation of the financial covenants.

Section 5.12.5. Management Changes. The BORROWER shall notify the LENDER immediately of any changes in the personnel holding the positions of either President/Chief Executive Officer or Chief Financial Officer of the BORROWER.

Section 5.12.6. General Information. In addition to the items set forth in subparagraphs 5.12.1 through 5.12.5 above, the BORROWER agrees to submit to the LENDER such other information respecting the condition or operations, financial or otherwise, of the BORROWER as the LENDER may reasonably request from time to time.

Section 5.13. Employee Benefit Plans And Guaranteed Pension Plans. The BORROWER will, and will cause each of its ERISA AFFILIATES that it controls to: (a) comply in all material respects with all requirements imposed by ERISA and the CODE, applicable from time to time to any of its GUARANTEED PENSION PLANS or EMPLOYEE BENEFIT PLANS; (b) make full payment when due of all amounts which, under the provisions of EMPLOYEE BENEFIT PLANS or under applicable LAW, are required to be paid as contributions thereto; (c) not permit to exist any violation of the funding standards of Sections 430 and 436 of the CODE and not permit circumstances to exist that are reasonably likely to result in the imposition of a lien pursuant to Section 430(k) of the Internal Revenue Code or Section 303(k) of ERISA; (d) file on a timely basis all material reports, notices and other filings required by any governmental agency with respect to any of its EMPLOYEE BENEFITS PLANS; (e) make any payments to MULTIEMPLOYER PLANS required to be made under any agreement relating to such MULTIEMPLOYER PLANS, or under any LAW pertaining thereto; (f) not amend or otherwise alter any GUARANTEED PENSION PLAN if the effect would be to cause the actuarial present value of all benefit commitments under any GUARANTEED PENSION PLAN to be less than the current value of the assets of such GUARANTEED PENSION PLAN allocable to such benefit commitments; (g) furnish to all participants, beneficiaries and employees under any of the EMPLOYEE BENEFIT PLANS, within the periods prescribed by LAW, all reports, notices and other information to which they are entitled under applicable LAW; and (h) take no action which would cause any of the EMPLOYEE BENEFIT PLANS to fail to meet any qualification requirement imposed by the CODE. As used in this Section, the terms "actuarial present value", "benefit commitments" and "current value" have the meaning specified in Section 4001 of ERISA.

Section 5.14. Maintenance Of Fixed Assets. The BORROWER shall (i) maintain and preserve all of its material property necessary to its business in a state of good working order and condition, ordinary wear and tear excepted and (ii) comply, and cause each of its SUBSIDIARIES to comply, at all times with the provisions of all leases to which it is a party as lessee or under which it occupies property, so as to prevent any loss or forfeiture thereof or thereunder, except to the extent any such noncompliance could not reasonably be expected to be a MATERIAL ADVERSE EVENT.

Section 5.15. Federal Assignment Of Claims Act. The BORROWER shall notify the LENDER if any RECEIVABLE constituting and ELIGIBLE ACCOUNT arises out of a contract with the United States of America, or any department, agency or instrumentality thereof, and, to the extent such contract is material to the BORROWER'S business or operations, if requested by the LENDER, shall execute all documents or instruments and shall take all reasonable steps or actions reasonably required by the LENDER so that all monies due or to become due under such contract are assigned to the LENDER and notice given thereof to the United States in accordance with the requirements of the Federal Assignment of Claims Act, as amended.

Section 5.16. Compliance With Laws. The BORROWER shall, and shall cause its SUBSIDIARIES to, comply in all material respects with all applicable LAWS, including, but not limited to, all LAWS with respect to: (a) all restrictions, specifications, or other requirements pertaining to products that it sells or to the services it performs; (b) the conduct of its business; (c) the use,

maintenance, and operation of the real and personal properties owned or leased by it in the conduct of its business; and (d) the obtaining and maintenance of all necessary and material licenses, franchises, permits and governmental approvals, registrations and exemptions necessary to engage in its business. Without limiting the generality of the preceding sentence, the BORROWER shall: (i) comply in all material respects with, and take commercially reasonable steps to obtain such compliance by all tenants and subtenants, if any, with, all applicable ENVIRONMENTAL LAWS and obtain and comply in all material respects with and maintain, and take commercially reasonable steps so that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable ENVIRONMENTAL LAWS; (ii) conduct and complete all material investigations, studies, sampling and testing, and all material remedial, removal and other actions required under ENVIRONMENTAL LAWS, and promptly comply with all lawful orders and directives of any GOVERNMENTAL AUTHORITY regarding ENVIRONMENTAL LAWS; and (iii) defend, indemnify and hold harmless the LENDER, and its employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of, noncompliance with or liability under any ENVIRONMENTAL LAWS applicable to the operations of the BORROWER, or any orders, requirements or demands of governmental authorities related thereto, including, without limitation, reasonable attorney's and consultant's fees, investigation and laboratory fees, response costs, court costs and litigation expenses, except to the extent that any of the foregoing directly result from the gross negligence or willful misconduct of the party seeking indemnification therefore. The BORROWER agrees to promptly notify the LENDER of any RELEASE of a REGULATED SUBSTANCE on, to or from any FACILITY in material violation of any ENVIRONMENTAL LAWS or of any notice received by the BORROWER from a GOVERNMENTAL AUTHORITY that the BORROWER or any FACILITY is not in compliance with any ENVIRONMENTAL LAWS.

Section 5.17. Debt Service Coverage. The BORROWER shall maintain a ratio of CASH FLOW to DEBT SERVICE of not less than 2.0 to 1.00 for each four (4) quarter period ending on the last day of a fiscal quarter.

Section 5.18. Current Ratio. The BORROWER shall, as of the end of each fiscal quarter, have a CURRENT RATIO of not less than 1.0 to 1.0.

Section 5.19. Leverage Ratio. The BORROWER shall have a ratio of TOTAL LIABILITIES (excluding the SUBORDINATED DEBT) to TANGIBLE NET WORTH plus SUBORDINATED DEBT of not more than: (a) 3.5 to 1.0 as of the date of CLOSING and as of the end of each fiscal quarter from CLOSING through and including September 30, 2015; and (b) 3.0 to 1.0 as of December 31, 2015 and as of the end of each fiscal quarter thereafter.

Section 5.20. Preservation of Existence, Etc. The BORROWER shall maintain and preserve, and cause each of its SUBSIDIARIES to maintain and preserve, its existence, rights and privileges, and become or remain, and cause each of its SUBSIDIARIES to become or remain, duly qualified and in good standing in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary.

## ARTICLE 6.
## NEGATIVE COVENANTS

The BORROWER covenants while any OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) are outstanding and unpaid not to do or to permit to be done or to occur (and cause each of its SUBSIDIARIES not to do or to permit to be done or

to occur as if referenced herein) any of the acts or occurrences set forth in this Article 6 without the prior written authorization of the LENDER.

Section 6.1. No Change Of Name, Merger, Etc. The BORROWER shall not change its name or enter into any merger, consolidation, reorganization or recapitalization.

Section 6.2. No Sale Or Transfer Of Assets. The BORROWER shall not sell, transfer, lease or otherwise dispose of all or any part of the COLLATERAL or all or any part of its other assets, except that: (a) INVENTORY may be sold to ACCOUNT DEBTORS in the ordinary course of the BORROWER'S business; (b) payments may be made to trade creditors and vendors in the ordinary course of business; (c) transfers consisting of the granting of PERMITTED LIENS, investments permitted under Section 6.7, or RESTRICTED PAYMENTS permitted under Section 6.5; (d) the granting of licenses of over the counter software and licenses for the use of INTELLECTUAL PROPERTY entered into in the ordinary course of business; (e) transfers of EQUIPMENT to the extent that such EQUIPMENT is exchanged for credit against the purchase price of similar replacement EQUIPMENT or the proceeds of such transfer are applied against the purchase price of such replacement EQUIPMENT; (f) transfers of cash and cash equivalents in the ordinary course of business; (g) transfers of other property (excluding RECEIVABLES) having a fair market value not to exceed Fifty Thousand Dollars ($50,000.00) in the aggregate for any FISCAL YEAR; and (h) obsolete EQUIPMENT may be sold or otherwise disposed of in the ordinary course of the BORROWER'S business.

Section 6.3. No Encumbrance Of Assets. The BORROWER shall not mortgage, pledge, grant or permit to exist a security interest in or LIEN upon any of its assets of any kind, now owned or hereafter acquired, except for PERMITTED LIENS.

Section 6.4. No Indebtedness. The BORROWER shall not incur, create, assume, or permit to exist any INDEBTEDNESS except PERMITTED INDEBTEDNESS.

Section 6.5. Restricted Payments. The BORROWER shall not make any RESTRICTED PAYMENTS other than (a) any dividends payable solely in CAPITAL STOCK; (b) repurchases pursuant to the terms of employee stock purchase plans, employee restricted stock agreements, stockholder rights plans, director or consultant stock option plans, or similar plans, unless, in each case (*i.e.*, clauses (a) and (b)), if an EVENT OF DEFAULT has occurred and is continuing or would result therefrom after giving pro forma effect thereto; and (c) payments made under the BORROWER'S operating agreement relating to the sharing of tax benefits provided the LENDER has approved the terms of the operating agreement, which approval shall not be unreasonably withheld.

Section 6.6. Transactions With Affiliates. The BORROWER shall not make any contract for the purchase of any items from any AFFILIATE or the performance of any services (including employment services) by any AFFILIATE, unless such contract is on terms which fairly represent fair and reasonable terms that could be obtained in arm's length transactions of a similar nature with independent third PERSONS.

Section 6.7. Loans, Investments And Sale-Leasebacks. The BORROWER shall not make any advance, guarantee of obligation, loan, investment, or material acquisition of assets or enter into any sale-leaseback transactions other than: (a) investments in the BORROWER; (b) investments(including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business; (c) any conversion of RECEIVABLES into an INSTRUMENT in contemplation of facilitating the collection thereof; (d) investments in the form of Acquisitions permitted

pursuant to Section 6.8; and (e) loans and advances to employees and officers of the BORROWER for travel and moving expenses in the ordinary course of business.

Section 6.8. No Acquisition Of Equity In Or Assets Of Third Persons. The BORROWER shall not acquire any equity interests in, or all or any material portion of the assets of, any PERSON or division or department of any PERSON (an "Acquisition"); provided, however, the BORROWER may complete an Acquisition in which all of the following conditions are satisfied: (a) the Acquisition is funded entirely with available cash balances of the BORROWER (and not with borrowings under the LOAN); (b) the business acquired as a result of such Acquisition ("Target") is in the same principal lines of business as the BORROWER; (c) the Target is located in the United States of America; (d) as evidenced by financial statements delivered to the LENDER, the Target's EBITDA for the twelve (12) month period ending on the last day of the most recent financial statements of the Target (which statements shall not be more than sixty (60) days prior to the date of the Acquisition) is positive; (e) the LENDER is provided with copies of all documents executed in connection with the Acquisition; (f) there are no DEFAULTS or EVENTS OF DEFAULT at the time of the Acquisition nor shall the Acquisition result in a DEFAULT or EVENT OF DEFAULT; (g) the assets of the Target will not be subject to any security interests or liens following the Acquisition other than PERMITTED LIENS; (h) the Target will not be obligated on any loans or other INDEBTEDNESS; (i) the LENDER shall be granted a first priority perfected (to the extent required by Section 3.3) lien (subject to PERMITTED LIENS) in all of the assets of the Target as security for the OBLIGATIONS; and (j) if the Target is a separate legal entity, the Target shall guarantee the OBLIGATIONS for the benefit of the LENDER pursuant to terms acceptable to the LENDER.

Section 6.9. No Alteration Of Structure Or Operations. The BORROWER shall not amend or change materially its capital structure or its line or scope of business, nor shall it engage in material business ventures other than those in which it is presently engaged.

Section 6.10. Unpermitted Uses Of Loan Proceeds. The BORROWER shall not use any part of the proceeds of the LOAN hereunder for any purpose which constitutes a violation of, or is inconsistent with, regulations of the Board of Governors of the Federal Reserve System, including without limitation, the purchase or carrying of (or refinancing of indebtedness originally incurred to purchase or carry) margin securities.

Section 6.11. Changes In Fiscal Year. The BORROWER shall not change its FISCAL YEAR.

Section 6.12. Limitation On Issuance Of Equity Interests. The BORROWER shall not issue or sell any equity interest in the BORROWER that, by its terms or by the terms of any security into which it is convertible or exchangeable, is, or upon the happening of an event or passage of time would be: (a) convertible or exchangeable into a liability of the BORROWER; or (b) required to be redeemed or repurchased, including at the option of the holder, in whole or in part, or has, or upon the happening of an event or passage of time would have, a redemption or similar payment due.

Section 6.13. Limitations on Dividends and Other Payment Restrictions Affecting Subsidiaries. The BORROWER shall not create or otherwise cause, incur, assume, suffer or permit to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any SUBSIDIARY of any LOAN PARTY (i) to pay dividends or to make any other distribution on any shares of CAPITAL STOCK of such SUBSIDIARY owned by any LOAN PARTY or any of its SUBSIDIARIES, (ii) to pay or prepay or to subordinate any INDEBTEDNESS owed to any LOAN PARTY or any of its SUBSIDIARIES, (iii) to make loans or advances to any LOAN PARTY or any of its SUBSIDIARIES or (iv) to transfer any of its property or assets to any LOAN PARTY or any of its SUBSIDIARIES, or permit any of its SUBSIDIARIES to do any of the foregoing; provided, however, that nothing in any of

clauses (i) through (iv) of this Section shall prohibit or restrict compliance with:

(A) this AGREEMENT and the other LOAN DOCUMENTS;

(B) any agreements in effect on the date of this AGREEMENT and described on Schedule 6.13 attached hereto;

(C) any applicable LAW (including applicable currency control laws and applicable state corporate statutes restricting the payment of dividends in certain circumstances);

(D) in the case of clause (iv), any agreement setting forth customary restrictions on the subletting, assignment or transfer of any property or asset that is leased or licensed; or

(E) in the case of clause (iv), any agreement, instrument or other document evidencing a PERMITTED LIEN that restricts, on customary terms, the transfer of, or LIEN upon, any property or assets subject thereto.

Section 6.14. Modifications of Indebtedness, Organizational Documents and Certain Other Agreements; Etc. The BORROWER shall not (i) amend, modify or otherwise change (or permit the amendment, modification or other change in any manner of) any of the provisions of any of its or its SUBSIDIARIES' INDEBTEDNESS (other than the OBLIGATIONS) or of any instrument or agreement (including any purchase agreement, indenture, loan agreement or security agreement) relating to any such INDEBTEDNESS if such amendment, modification or change would shorten the final maturity or average life to maturity of, or require any payment to be made earlier than the date originally scheduled on, such INDEBTEDNESS, would increase the interest rate applicable to such INDEBTEDNESS, would change the subordination provisions, if any, of such INDEBTEDNESS, or would otherwise be materially adverse to LENDER or the issuer of such INDEBTEDNESS in any respect, (ii) except for the OBLIGATIONS, and except as permitted pursuant to Section 6.5, make any voluntary or optional payment, prepayment, redemption, defeasance, sinking fund payment or other acquisition for value of any of its or its SUBSIDIARIES' INDEBTEDNESS (including by way of depositing money or securities with the trustee therefor before the date required for the purpose of paying any portion of such INDEBTEDNESS when due), or refund, refinance, replace or exchange any other INDEBTEDNESS for any such INDEBTEDNESS (except to the extent such INDEBTEDNESS is otherwise expressly permitted by the definition of "PERMITTED INDEBTEDNESS"), or make any payment, prepayment, redemption, defeasance, sinking fund payment or repurchase of any outstanding INDEBTEDNESS (other than any INDEBTEDNESS secured by any PERMITTED LIEN on any asset (other than INDEBTEDNESS assumed by the purchaser of such asset) which is required to be, and is, repaid in connection with such disposition) as a result of any asset sale, change of control, issuance and sale of debt or equity securities or similar event, or give any notice with respect to any of the foregoing, or (iii) except for technical changes and changes that are purely advantageous to BORROWER, amend, modify or otherwise change its articles of organization or operating agreement (or other similar organizational or formation documents), including by the filing or modification of any certificate of designation, or any agreement or arrangement entered into by it, with respect to any of its CAPITAL STOCK (including any shareholders' agreement), or enter into any new agreement with respect to any of its CAPITAL STOCK that is materially adverse to LENDER.

Section 6.15. Certain Agreements. The BORROWER shall not agree to any amendment or other change to or waiver of any of its rights under any MATERIAL CONTRACT, in each case that could reasonably be expected to be a MATERIAL ADVERSE EVENT.

Section 6.16. Subordination Agreement. The BORROWER shall not make any payment on the SUBORDINATED DEBT which is not permitted to be paid under the terms of the Subordination And Intercreditor Agreement of even date herewith between the LENDER, the BORROWER and ALJ Regional Holdings, Inc.

## ARTICLE 7.
## EVENTS OF DEFAULT

The occurrence of any of the following events shall constitute an EVENT OF DEFAULT.

Section 7.1. Failure To Pay. The failure by the BORROWER (a) to pay any principal when due and payable or (b) to pay any interest or any of the other OBLIGATIONS within three (3) BUSINESS DAYS after such OBLIGATIONS are due and payable.

Section 7.2. Violation Of Covenants. The failure by the BORROWER or SUBSIDIARY (a) to perform or a violation of any of the covenants or agreements provided in Sections 5.4, 5.5, 5.10, 5.12.1, 5.12.2, 5.12.3, 5.12.4, 5.12.6, 5.17, 5.18, 5.19 or Article VI of this AGREEMENT or (b) to perform or a violation of any of the other covenants or agreements contained in any section of this AGREEMENT (other than those set forth in clause (a) above or any other Section of this Article VII) or in any of the other LOAN DOCUMENTS and such default shall have continued unremedied, uncured or unwaived for a period of fifteen (15) BUSINESS DAYS after the earlier of (i) a RESPONSIBLE OFFICER obtains, or could reasonably be expect to have obtained, knowledge of the occurrence of such default and (ii) receipt by the BORROWER of written notice from the LENDER of such default.

Section 7.3. Representation Or Warranty. The failure of any representation or warranty made by the BORROWER to be true in any material respect, as of the date made.

Section 7.4. Judgments. A LOAN PARTY or any SUBSIDIARY shall suffer final judgments for the payment of money aggregating in excess of One Hundred Thousand Dollars ($100,000.00) and shall not discharge the same within a period of thirty (30) days unless, pending further proceedings, execution has not been commenced or if commenced has been effectively stayed.

Section 7.5. Levy By Judgment Creditor. A judgment creditor of a LOAN PARTY shall obtain possession of any portion of the COLLATERAL by any means, including but not limited to levy, distraint, replevin or self-help, and the LOAN PARTIES shall not remedy same within thirty (30) days thereof; or a writ of garnishment is served on the LENDER relating to any of the DEPOSIT ACCOUNTS of the BORROWER maintained by the LENDER.

Section 7.6. Cross Default; Failure To Pay Liabilities. A (i) default under the Amended And Restated Loan And Security Agreement of even date herewith between the LENDER and Faneuil, Inc. and Faneuil Toll Operations LLC, as amended from time to time, which default is not cured within any applicable grace or cure period, or (ii) LOAN PARTY shall fail to pay any of its debts, in an aggregate amount in excess of One Hundred Thousand Dollars ($100,000.00), due the LENDER or any other PERSON and such failure shall continue beyond any applicable grace period, or any default under any agreement or instrument relating to such debt or any other event shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such debt; or any such debt shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled required prepayment), redeemed, purchased, or defeased or an offer to prepay, redeem, purchase or defease such debt shall be required to be made, in each case, prior to the stated maturity thereto.

Section 7.7. Involuntary Insolvency Proceedings. The institution of involuntary INSOLVENCY PROCEEDINGS against a LOAN PARTY and the failure of any such INSOLVENCY PROCEEDINGS to be dismissed before the earliest to occur of: (a) the date which is ninety (90) days after the institution of such INSOLVENCY PROCEEDINGS; (b) the entry of any order for relief in the INSOLVENCY PROCEEDING or any order adjudicating a LOAN PARTY insolvent; or (c) the impairment (as to validity, priority or otherwise) under such INSOLVENCY PROCEEDING of any security interest or LIEN of the LENDER in any of the COLLATERAL.

Section 7.8. Voluntary Insolvency Proceedings. The commencement by a LOAN PARTY of INSOLVENCY PROCEEDINGS.

Section 7.9. Material Adverse Event. The occurrence of a MATERIAL ADVERSE EVENT.

Section 7.10. ERISA. If any TERMINATION EVENT shall occur and as of the date thereof or any subsequent date, the sum of the various liabilities of the BORROWER and its ERISA AFFILIATES (such liabilities to include, without limitation, any liability to the Pension Benefit Guaranty Corporation (or any successor thereto) or to any other party under Sections 4062, 4063, or 4064 of ERISA or any other provision of LAW and to be calculated after giving effect to the tax consequences thereof) resulting from or otherwise associated with such TERMINATION EVENT exceeds One Hundred Thousand Dollars ($100,000.00); or the BORROWER or any of its ERISA AFFILIATES as an employer under any MULTIEMPLOYER PLAN shall have made a complete or partial withdrawal from such MULTIEMPLOYER PLANS and the plan sponsors of such MULTIEMPLOYER PLANS shall have notified such withdrawing employer that such employer has incurred a withdrawal liability requiring a payment in an amount exceeding One Hundred Thousand Dollars ($100,000.00).

Section 7.11. Change of Control. The occurrence of a CHANGE OF CONTROL in the BORROWER.

Section 7.12. Indictment Of Borrower. The indictment of the BORROWER for a felony under any federal, state or other LAW.

Section 7.13. Injunction. The issuance of any injunction against the BORROWER which enjoins or restrains the BORROWER from continuing to conduct any material part of the BORROWER'S business affairs, unless such injunction could not reasonably be expected to have a materially adverse effect on BORROWER'S business or operations.

## ARTICLE 8.
## RIGHTS AND REMEDIES ON THE OCCURRENCE AND DURING THE CONTINUANCE OF AN EVENT OF DEFAULT

Section 8.1. Lender's Specific Rights And Remedies. In addition to all other rights and remedies provided by LAW and the LOAN DOCUMENTS, upon the occurrence and during the continuance of any EVENT OF DEFAULT, the LENDER may: (a) accelerate and call immediately due and payable all or any part of the OBLIGATIONS; (b) seek specific performance or injunctive relief to enforce performance of the undertakings, duties, and agreements provided in the LOAN DOCUMENTS, whether or not a remedy at law exists or is adequate; and (c) exercise any rights of a secured creditor under the UCC, including the right to take possession of the COLLATERAL without the use of judicial process or hearing of any kind and the right to require the BORROWER to assemble the COLLATERAL at such place as the LENDER may specify.

Section 8.2. Automatic Acceleration. Upon the occurrence and during the continuance of an EVENT OF DEFAULT as described in Sections 7.7 or 7.8 of this AGREEMENT, the OBLIGATIONS shall be automatically accelerated and due and payable without any notice, demand or action of any type on the part of the LENDER.

Section 8.3. Sale Of Collateral. In addition to any other remedy provided herein, upon the occurrence during the continuance of an EVENT OF DEFAULT, the LENDER, in a commercially reasonable fashion, may sell at public or private sale or otherwise realize upon, the whole or, from time to time, any part of all COLLATERAL which is personal property, or any interest which the BORROWER may have therein. Pending any such action, the LENDER may collect and liquidate the COLLATERAL. After deducting from the proceeds of sale or other disposition of such COLLATERAL all expenses, including all expenses for legal services, the LENDER shall apply such proceeds toward the satisfaction of the OBLIGATIONS. Any remainder of the proceeds after satisfaction in full of the OBLIGATIONS shall be distributed as required by applicable LAW. Notice of any sale or other disposition (other than sales or other dispositions of COLLATERAL which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market) shall be given to the BORROWER not less than ten (10) calendar days before the time of any intended public sale or of the time after which any intended private sale or other disposition of the COLLATERAL is to be made, which the BORROWER hereby agree shall be commercially reasonable notice of such sale or other disposition. The BORROWER shall assemble, or shall cause to be assembled, at the BORROWER'S own expense, the COLLATERAL at such place or places as the LENDER shall designate. At any such sale or other disposition, the LENDER may, to the extent permissible under applicable law, purchase the whole or any part of the COLLATERAL, free from any right of redemption on the part of the BORROWER, which right is hereby waived and released to the extent lawfully permitted. Without limiting the generality of any of the rights and remedies conferred upon the LENDER under this Section, the LENDER may, upon the occurrence and during the continuance of any EVENT OF DEFAULT, to the full extent permitted by applicable law: (a) enter upon the premises of the BORROWER, exclude therefrom the BORROWER or any PERSON connected therewith, and take immediate possession of the COLLATERAL, either personally or by means of a receiver appointed by a court of competent jurisdiction, using all necessary force to do so; (b) at the LENDER'S option, use, operate, manage, and control the COLLATERAL in any lawful manner; (c) collect and receive all income, revenue, earnings, issues, and profits therefrom; and (d) maintain, alter or remove the COLLATERAL as the LENDER may determine in the LENDER'S discretion.

Section 8.4. Letters Of Credit. Upon the request of the LENDER, at any time after the occurrence and during the continuance of an EVENT OF DEFAULT, the BORROWER shall immediately deposit in a cash collateral account at the LENDER, over which the LENDER has sole access, an amount equal to the aggregate then undrawn and unexpired amount of all LETTERS OF CREDIT. Amounts held in such cash collateral account shall be applied by the LENDER to the payment of drafts drawn under LETTERS OF CREDIT, and the unused portion thereof after all LETTERS OF CREDIT shall have expired or been fully drawn upon shall be applied to repay the other OBLIGATIONS. After all LETTERS OF CREDIT shall have expired or have been fully drawn upon and all other OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS) shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the BORROWER. In the event the BORROWER fails to deposit into the cash collateral account an amount equal to the then undrawn and unexpired amount of all LETTERS OF CREDIT, the LENDER shall be authorized to deposit into such cash collateral account proceeds from the liquidation of the COLLATERAL until the balance in such account equals the aggregate then undrawn and unexpired amount of all LETTERS OF CREDIT.

Section 8.5. Specific Rights Regarding Collateral. In addition to all other rights and remedies provided hereunder or as shall exist at law or in equity from time to time, the LENDER may (but shall be

under no obligation to), upon the occurrence and during the continuance of an EVENT OF DEFAULT, without notice to the BORROWER, and the BORROWER hereby irrevocably appoints the LENDER as its attorney in fact, with power of substitution, in the name of the LENDER or in the name of the BORROWER or otherwise, for the use and benefit of the LENDER, but at the cost and expense of the BORROWER and without notice to the BORROWER:

Section 8.5.1. request any ACCOUNT DEBTOR obligated on any of the ACCOUNTS to make payments thereon directly to the LENDER, with the LENDER taking control of the cash and non-cash proceeds thereof;

Section 8.5.2. compromise, extend or renew any of the COLLATERAL or deal with the same as it may deem advisable;

Section 8.5.3. make exchanges, substitutions or surrenders of all or any part of the COLLATERAL;

Section 8.5.4. copy, transcribe, or remove from any place of business of the BORROWER all books, records, ledger sheets, correspondence, invoices and documents, relating to or evidencing any of the COLLATERAL or without cost or expense to the LENDER, make such use of the BORROWER'S place(s) of business as may be reasonably necessary to administer, control and collect the COLLATERAL;

Section 8.5.5. repair, alter or supply goods if necessary to fulfill in whole or in part the purchase order of any ACCOUNT DEBTOR;

Section 8.5.6. demand, collect, receipt for and give renewals, extensions, discharges and releases of any of the COLLATERAL;

Section 8.5.7. institute and prosecute legal and equitable proceedings to enforce collection of, or realize upon, any of the COLLATERAL;

Section 8.5.8. settle, renew, extend, compromise, compound, exchange or adjust claims in respect of any of the COLLATERAL or any legal proceedings brought in respect thereof;

Section 8.5.9. endorse or sign the name of the BORROWER upon any items of payment, certificates of title, instruments, securities, stock powers, documents, documents of title, assignments, notices, or other writing relating to or part of the COLLATERAL and on any proof of claim in bankruptcy against an ACCOUNT DEBTOR;

Section 8.5.10. notify the post office authorities to change the address for the delivery of mail to the BORROWER to such address or post office box as the LENDER may designate and receive and open all mail addressed to the BORROWER; and

Section 8.5.11. take any other action necessary or beneficial to realize upon or dispose of the COLLATERAL or to carry out the terms of this AGREEMENT.

Section 8.6. Certain Additional Actions Regarding Intellectual Property. If any EVENT OF DEFAULT shall have occurred and be continuing, then upon the written demand of the LENDER, the BORROWER shall execute and deliver to the LENDER an assignment or assignments in favor of the LENDER, its designee, or in blank, of the BORROWER'S rights in the INTELLECTUAL PROPERTY COLLATERAL, in recordable form with respect to those items of the INTELLECTUAL PROPERTY

COLLATERAL consisting of registered or applied-for PATENTS, TRADEMARKS, COPYRIGHTS and/or OTHER PROPRIETARY RIGHTS, and such other documents as are necessary or appropriate to carry out the intent and purposes hereof.

Section 8.7. Rights Regarding Intellectual Property After Event Of Default. Upon the occurrence and during the continuance of any EVENT OF DEFAULT, the LENDER shall have the right, but shall in no way be obligated, to file applications for protection of the INTELLECTUAL PROPERTY COLLATERAL and/or bring suit in the name of the BORROWER or the LENDER to enforce the INTELLECTUAL PROPERTY COLLATERAL. In the event of such suit, the BORROWER shall, during the continuance of an EVENT OF DEFAULT, at the request of the LENDER, do any and all lawful acts, including joinder as a party, and execute any and all documents requested by the LENDER in aid of such enforcement, and the BORROWER shall promptly reimburse and indemnify the LENDER for all costs and expenses incurred by the LENDER in the exercise of its rights under this section. In the event that the LENDER shall elect not to bring suit to enforce the INTELLECTUAL PROPERTY COLLATERAL, the BORROWER agrees, at the request of the LENDER, to take all actions necessary, whether by suit, proceeding or other action, to prevent and/or obtain a recovery for the infringement or other violation of rights in, diminution in value of, or other damage to any of the INTELLECTUAL PROPERTY COLLATERAL by any person.

Section 8.8. Grant Of Intellectual Property License. Solely for the purpose of enabling the LENDER to exercise rights and remedies hereunder upon the occurrence and during the continuance of an EVENT OF DEFAULT and for no other purpose, the BORROWER hereby grants to the LENDER a non-exclusive license and, to the extent permitted under INTELLECTUAL PROPERTY LICENSES granting the BORROWER rights in INTELLECTUAL PROPERTY, sublicense (in each case, exercisable without payment of royalties or other compensation to the BORROWER) to use or otherwise exploit, with rights of sublicense, any of the INTELLECTUAL PROPERTY COLLATERAL now or hereafter owned by or licensed to the BORROWER, wherever the same may be located; provided that: (a) such license shall be subject to the rights of any licensee under any exclusive license granted prior to such EVENT OF DEFAULT, to the extent such license is a PERMITTED LIEN; (b) such license shall be irrevocable during the continuance of an EVENT OF DEFAULT; (c) the quality of any services or products in connection with which any TRADEMARKS included in the COLLATERAL are used will not be materially inferior to the quality of such services and products sold by the BORROWER under such TRADEMARKS immediately prior to such EVENT OF DEFAULT and the BORROWER shall have the right to inspect any such services and products to monitor compliance with such standard; and (d) to the extent the foregoing license is a sublicense of the BORROWER'S rights as licensee under any third party license, the license to LENDER shall be in accordance with any limitations in such third party license including prohibitions on further sublicensing. Consistent with the foregoing provisos, the license shall include access to all media in which any of the licensed items may be recorded or stored and to all computer programs used for the compilation or printout hereof.

Section 8.9. Remedies Cumulative. The rights and remedies provided in this AGREEMENT and in the other LOAN DOCUMENTS or otherwise under applicable LAWS shall be cumulative and the exercise of any particular right or remedy shall not preclude the exercise of any other rights or remedies in addition to, or as an alternative of, such right or remedy.

## ARTICLE 9.
## GENERAL CONDITIONS AND TERMS

Section 9.1. Obligations Are Unconditional. The payment and performance of the OBLIGATIONS shall be the absolute and unconditional duty and obligation of the BORROWER, and shall be independent of any defense or any rights of set-off, recoupment or counterclaim which the

BORROWER might otherwise have against the LENDER. The BORROWER shall pay the payments of the principal and interest to be made upon the OBLIGATIONS, free of any deductions and without abatement, diminution or set-off other than those herein expressly provided. Until such time as the OBLIGATIONS (other than contingent indemnification obligations) have been fully paid and performed, the BORROWER shall not: (a) suspend or discontinue any payments required by the LOAN DOCUMENTS; and (b) fail to perform and observe all of the BORROWER'S covenants and agreements set forth in the LOAN DOCUMENTS.

Section 9.2. Indemnification. The BORROWER agrees to indemnify and hold harmless, the LENDER, the LENDER'S AFFILIATES and the LENDER'S AFFILIATES officers, directors, shareholders, employees and agents (each an "Indemnified Party", and collectively, the "Indemnified Parties"), from and against any and all claims, liabilities, losses, damages, costs and expenses (whether or not such Indemnified Party is a party to any litigation), including without limitation, reasonable attorney's fees and costs and costs of investigation, document production, attendance at depositions or other discovery, incurred by any Indemnified Party with respect to, arising out of or as a consequence of (a) this AGREEMENT or any of the other LOAN DOCUMENTS, including without limitation, any failure of the BORROWER to pay when due (at maturity, by acceleration or otherwise) any principal, interest, fee or any other amount due under this AGREEMENT or the other LOAN DOCUMENTS, or any other EVENT OF DEFAULT (b) the use by the BORROWER of any proceeds advanced hereunder; (c) the transactions contemplated hereunder; or (d) any claim, demand, action or cause of action being asserted against (i) the BORROWER or any of its affiliates by any other PERSON, or (ii) any Indemnified Party by the BORROWER in connection with the transactions contemplated hereunder. Notwithstanding anything herein or elsewhere to the contrary, the BORROWER shall not be obligated to indemnify or hold harmless any Indemnified Party from any liability, loss or damage resulting from the gross negligence, willful misconduct or unlawful actions of such Indemnified Party. Any amount payable to the LENDER under this Section will bear interest at the default rate of interest set forth in the NOTE from the due date until paid.

Section 9.3. NO ORAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 9.4. Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any assignment and assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable LAW, including the Federal Electronic Signatures in Global and National Commerce Act, or any other similar state LAWS based on the Uniform Electronic Transactions Act.

Section 9.5. Power of Attorney. In addition to all of the powers granted to the LENDER in this AGREEMENT, the BORROWER hereby appoints and constitutes the LENDER as the BORROWER'S attorney-in-fact to request, at any time there exists a reasonable basis for the LENDER to believe that a DEFAULT or EVENT OF DEFAULT has occurred and is continuing, from customers indebted on its RECEIVABLES verification of information concerning such RECEIVABLES and the amount owing thereon (provided that any verification prior to an EVENT OF DEFAULT shall not contain the LENDER'S name), and, upon the occurrence and during the continuance of an EVENT OF DEFAULT, (i) to convey any item of COLLATERAL to any purchaser thereof and (ii) to make any payment or take any act necessary or desirable to protect or preserve any COLLATERAL. The

LENDER'S authority hereunder shall include, without limitation, the authority to execute and give receipt for any certificate of ownership or any document, to transfer title to any item of COLLATERAL and to take any other actions arising from or incident to the powers granted to the LENDER under this AGREEMENT. This power of attorney is coupled with an interest and is irrevocable.

Section 9.6. Lender Expenses. All LENDER EXPENSES shall be paid by the BORROWER, whether incurred prior to or after CLOSING.

Section 9.7. Incorporation; Construction Of Inconsistent Provisions. In the event of any inconsistency between this AGREEMENT and any other LOAN DOCUMENT, the terms of this AGREEMENT shall govern.

Section 9.8. Waivers. The LENDER at any time or from time to time may waive all or any rights under this AGREEMENT or any other LOAN DOCUMENT, but any waiver or indulgence by the LENDER at any time or from time to time shall not constitute a future waiver of performance or exact performance by the BORROWER.

Section 9.9. Continuing Obligation Of Borrower; Termination. The terms, conditions, and covenants set forth herein and in the LOAN DOCUMENTS shall survive CLOSING and shall constitute a continuing obligation of the BORROWER. The security interests, LIENS and other security provided by this AGREEMENT shall remain in effect so long as any OBLIGATION (other than contingent indemnification obligations), whether direct or contingent, is outstanding, unpaid or unsatisfied. Notwithstanding anything to the contrary in any LOAN DOCUMENT, upon payment in full in cash of the OBLIGATIONS (other than contingent indemnification obligations and obligations in respect of BANK PRODUCTS), the receipt by the LENDER of BORROWER'S written notice to terminate the LENDER'S commitment to make any advance under the LOAN (and no BORROWER shall make any subsequent request for any such advance) and the expiration of all LETTERS OF CREDIT, this AGREEMENT and the LENDER'S LIENS in the COLLATERAL shall terminate and the LENDER shall, at the cost and expense of the BORROWER, make such filings and take such other actions as the BORROWER may reasonable request in order to evidence such termination and release.

Section 9.10. Choice Of Law. The laws of the Commonwealth of Virginia (excluding, however, conflict of law principles) shall govern and be applied to determine all issues relating to this AGREEMENT and the rights and obligations of the parties hereto, including the validity, construction, interpretation, and enforceability of this AGREEMENT and its various provisions and the consequences and legal effect of all transactions and events which resulted in the execution of this AGREEMENT or which occurred or were to occur as a direct or indirect result of this AGREEMENT having been executed.

Section 9.11. Submission To Jurisdiction; Venue; Actions Against Lender. For purposes of any action, in law or in equity, which is based directly or indirectly on this AGREEMENT, any other LOAN DOCUMENT or any matter related to this AGREEMENT or any other LOAN DOCUMENT, including any action for recognition or enforcement of any of the LENDER'S rights under the LOAN DOCUMENTS or any judgment obtained by the LENDER in respect thereof, the BORROWER hereby:

Section 9.11.1. Jurisdiction. Irrevocably submits to the non-exclusive general jurisdiction of the courts of the Commonwealth of Virginia and, if a basis for federal jurisdiction exists at any time, the courts of the United States of America for the District of Virginia.

Section 9.11.2. Venue. Agrees that venue shall be proper in the Circuit Court for any county in the Commonwealth of Virginia, as selected by the LENDER, and, if a basis for federal jurisdiction exists, the courts of the United States of America for the District of Virginia.

Section 9.11.3. Waiver Of Objections To Venue. Waives any right to object to the maintenance of any suit in any of the courts specified in Section 9.11.2 above on the basis of improper venue or convenience of forum. The BORROWER further agree that they shall not institute any suit or other action against the LENDER, in law or in equity, which is based directly or indirectly on this AGREEMENT, any other LOAN DOCUMENT or any matter related to this AGREEMENT or any other LOAN DOCUMENT, in any court other than a court specified in Section 9.11.2 above; provided, that in any instance in which there is then pending a suit instituted by the LENDER against the BORROWER in a court other than a court specified in Section 9.11.2 above, the BORROWER may file in such suit any counterclaim which it has against the LENDER but only if such counterclaim is a compulsory counterclaim and would be barred if not filed as a counterclaim in such suit. The BORROWER agree that any suit brought by it against the LENDER not in accordance with this paragraph should be forthwith dismissed or transferred to a court specified in Section 9.11.2 above.

Section 9.12. Notices. Any notice required or permitted by or in connection with this AGREEMENT shall be in writing and shall be made by facsimile (confirmed on the date the facsimile is sent by one of the other methods of giving notice provided for in this Section) or by hand delivery, by Federal Express, or other similar overnight delivery service, or by certified mail, unrestricted delivery, return receipt requested, postage prepaid, addressed to the LENDER or the BORROWER at the appropriate address set forth below or to such other address as may be hereafter specified by written notice by the LENDER or the BORROWER. Notice shall be considered given as of the date of the facsimile or the hand delivery, one (1) calendar day after delivery to Federal Express or similar overnight delivery service, or three (3) calendar days after the date of mailing, independent of the date of actual delivery or whether delivery is ever in fact made, as the case may be, provided the giver of notice can establish the fact that notice was given as provided herein. If notice is tendered pursuant to the provisions of this Section and is refused by the intended recipient thereof, the notice, nevertheless, shall be considered to have been given and shall be effective as of the date herein provided.

If to the LENDER:

M&T BANK
7799 Leesburg Pike, North Tower, Suite 900
Falls Church, Virginia 22043
Attn: R. Mark Swaak, Vice President
Fax No.: (703) 448-3190

If to the BORROWER:

FLOORS-N-MORE, LLC
4580 W Teco Dr.
Las Vegas, NV 89118
Attn: _____
Fax No.: _____

and to:

Robert Christ
PO Box 99418
San Diego, CA 92169
Fax No.: (301) 529-3160
Email: t.robert.christ@gmail.com

and to:

Christopher M. Forrester
Shearman & Sterling LLP
Five Palo Alto Square, 6th Floor
3000 El Camino Real
Palo Alto, California 94306-2155
Email: Christopher.Forrester@Shearman.com

Section 9.13. Participations. The LENDER reserves the right to assign all or any portion of its interests in any of the OBLIGATIONS or the LOAN DOCUMENTS or to participate with other lending institutions any of the OBLIGATIONS and the LOAN DOCUMENTS on such terms and at such times as the LENDER may determine from time to time; provided that, unless an EVENT OF DEFAULT shall have occurred, the LENDER shall not make any such assignment without the prior written consent of the BORROWER (such consent not to be unreasonably withheld, conditioned or delayed).

Section 9.14. Miscellaneous Provisions. The parties agree that: (a) this AGREEMENT shall be effective as of the date first above written, independent of the date of execution or delivery hereof; (b) this AGREEMENT shall be binding upon the parties and their successors and assigns, contains the final and entire agreement and understanding of the parties, and may neither be amended or altered except by a writing signed by the parties; (c) time is strictly of the essence of this AGREEMENT; (d) as used herein, the singular includes the plural and the plural includes the singular, the use of any gender applies to all genders; (e) the captions contained herein are for purposes of convenience only and are not a part of this AGREEMENT; (f) a carbon, photographic, photocopy or other reproduction of a security agreement or financing statement shall be sufficient as a financing statement; (g) this AGREEMENT may be delivered by facsimile, and a facsimile of any party's signature to this AGREEMENT shall be deemed an original signature for all purposes; and (h) this AGREEMENT may be executed in several counterparts, each of which shall be an original, but all of which, when taken together, shall constitute one and the same document.

Section 9.15. Waiver Of Trial By Jury. Each party to this AGREEMENT agrees that any suit, action, or proceeding, whether claim or counterclaim, brought or instituted by either party hereto or any successor or assign of any party on or with respect to this AGREEMENT or any other LOAN DOCUMENT or which in any way relates, directly or indirectly, to the OBLIGATIONS or any event, transaction, or occurrence arising out of or in any way connected with any of the OBLIGATIONS, or the dealings of the parties with respect thereto, shall be tried only by a court and not by a jury. **EACH PARTY HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION, OR PROCEEDING.**

[Signatures Contained on Next Page]

IN WITNESS WHEREOF, the LENDER and the BORROWER has duly executed this Loan And Security Agreement under seal as of the date first above written.

WITNESS/ATTEST:

**LENDER:**

**M&T BANK**

By: _____(SEAL)
Name: R. Mark Swaab
Title: Vice President

**BORROWER:**

**FLOORS-N-MORE, LLC,**
A Nevada Limited Liability Company

_____

By: _____(SEAL)
Name: _____
Title: _____

IN WITNESS WHEREOF, the LENDER and the BORROWER has duly executed this Loan And Security Agreement under seal as of the date first above written.

WITNESS/ATTEST:

**LENDER:**

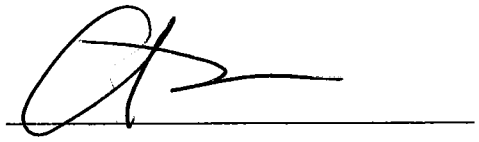
**M&T BANK**

_____

By: _____(SEAL)
Name: _____
Title: _____

**BORROWER:**

**FLOORS-N-MORE, LLC,**
A Nevada Limited Liability Company



By: Steve Chesin (SEAL)
Name: Steve Chesin
Title: CEO