ALJ REGIONAL HOLDINGS, INC.

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Quarterly Report for the
Period Ended
December 31, 2014

ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report for the Period Ended December 31, 2014 (the "Report") regarding future financial performance, results and conditions and other statements that are not historical facts, including, among others, statements regarding demand for the services offered by each of Faneuil, Inc. ("Faneuil") and Floors N More, LLC, dba Carpets N More ("Carpets"), the ability of Faneuil and Carpets to generate additional sales, manage their expenses and expand their respective businesses, the effect of any legal proceedings, the expectation that potential losses related to a fixed price project will be reimbursed by insurance companies or the general contractor, the ability of the Company's stockholder rights plan to protect its net operating losses, the Company not paying cash dividends in the foreseeable future, the Company's ability to continue to fund its operations and service its indebtedness, the adequacy of the Company's accrual for tax liabilities, management's projection of continued taxable income, and the Company's ability to offset future income against net operating loss carryovers, constitute forward-looking statements. The words "can," "could," "may," "will," "would," "plan," "future," "believes," "intends," "expects," "anticipates," "estimates," and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. Actual results or events could differ materially from those set forth or implied by such forward-looking statements and related assumptions due to certain important factors, including, without limitation, the risks set forth under the caption "Risk Factors" below, which are incorporated herein by reference. The Company is also subject to general business risks, including its success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, adverse state, federal or foreign legislation and regulation, changes in general economic factors, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters. Any forward-looking statements included in this Report are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any forward-looking statements.

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

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

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

References to the "Company," "we," "us" and "our" are to the consolidated operations of ALJ, including the operations of its subsidiaries, except to the extent the context is intended to refer only to ALJ.

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

The Company's investor relations contact is Rob Christ, the CFO 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

ITEM 2. SHARES OUTSTANDING

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

	Common Stock Period End Date			Preferred Stock Period End Date		
	December 31, 2014	**September 30, 2014**	**September 30, 2013**	**December 31, 2014**	**September 30, 2014**	**September 30, 2013**
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	31,278,660	26,744,913	0	0	0

As of December 31, 2014, there were 157 holders of record of the Company's common stock.

ITEM 3. INTERIM FINANCIAL STATEMENTS

EXPLANATORY NOTE

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

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

Therefore, the interim financial statements set forth below reflect the operations of ALJ for the period of October 1, 2013 through October 18, 2013, the consolidated operations of ALJ and Faneuil for the period of October 19, 2013 through March 31, 2014 and the consolidated operations of ALJ, Faneuil and Carpets for the period from April 1, 2014 through December 31, 2014.

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

	December 31, 2014	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,736,824	$10,078,301
Accounts receivable, less allowance for doubtful accounts of $1,791,789 at December 31, 2014 and $1,615,964 at September 30, 2014	35,194,371	25,441,827
Inventory	3,356,741	1,999,028
Prepaid expenses and other current assets	7,080,290	5,680,490
Deferred taxes	-	-
Total current assets	$ 49,368,226	$ 43,199,646
Property, plant and equipment	23,034,500	19,687,285
Less accumulated depreciation and amortization	(11,599,529)	(10,626,241)
Property, plant and equipment, net	11,434,971	9,061,044
Other assets:		
Goodwill	22,283,308	22,283,308
Intangible assets	16,322,457	16,779,458
Other assets	161,852	183,513
Investment in Bellator	102,077	102,077
Deferred loan costs, net	205,022	215,072
Deferred tax asset	5,446,581	5,446,581
Total other assets	44,521,297	45,010,009
Total assets	$ 105,324,494	$ 97,270,699

(continued)

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

(continued)

	December 31, 2014	September 30, 2014
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,844,484	$ 5,852,612
Accrued expenses	10,191,569	8,480,239
Income taxes payable	266,321	251,206
Current portion of notes payable	4,643,454	4,656,789
Current portion of deferred revenue	782,637	2,294,667
Current portion of capital lease obligations	111,410	43,388
Current portion of workmen's compensation reserve	709,234	709,234
Customer deposits	1,479,857	437,921
Other liabilities	1,230,679	427,175
Liabilities related to discontinued operations	298,466	298,466
Total current liabilities	$ 26,558,111	$ 23,451,697
Non-current liabilities:		
Line of credit	2,969,000	
Workmen's compensation reserve, less current portion	1,320,578	1,240,600
Unearned revenue	84,524	112,607
Notes payable, less current portion	15,250,000	16,400,000
Deferred revenue, less current portion	484,403	596,395
Deferred tax liability	5,446,581	5,446,581
Other liabilities	787,695	813,413
Capital lease obligations, less current portion	190,840	-
Non-controlling interest	1,485,819	1,381,959
Total liabilities	$ 54,577,551	$ 49,443,252
Commitments and contingencies		
Stockholders' equity (deficiency):		
Common stock, $0.01 par value; authorized - 100,000,000 shares; 31,278,660 issued and outstanding at December 31, 2014 and September 30, 2014	312,786	312,786
Additional paid-in capital	267,954,029	267,917,729
Accumulated deficit	(216,702,964)	(219,586,160)
Treasury stock – 245,627 shares at December 31, 2014 and September 30, 2014, at cost	(816,908)	(816,908)
Total stockholders' equity	50,746,943	47,827,447
Total liabilities and stockholders' equity	$ 105,324,494	$ 97,270,699

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2014	**2013**
NET REVENUE	$ 49,864,621	$ 25,833,314
COSTS AND EXPENSES		
Cost of revenue	39,275,163	20,261,121
Selling, general and administrative	5,718,727	3,211,361
Depreciation and amortization	1,430,290	450,144
Total cost of operations	46,424,180	23,922,626
Income from operations	3,440,441	1,910,688
OTHER INCOME (EXPENSE)		
Interest and dividend income	2,795	6,867
Interest expense	(231,918)	(264,528)
Total other income (expense)	(229,123)	(257,661)
INCOME FROM CONTINUING OPERATIONS	3,211,318	1,653,027
INCOME TAXES	(224,263)	(122,432)
INCOME BEFORE NON-CONTROLLING INTEREST	2,987,055	1,530,595
NON-CONTROLLING INTEREST	(103,859)	(60,472)
NET INCOME	2,883,196	1,470,123
NET INCOME (LOSS) PER COMMON SHARE -		
Basic	$0.09	$0.05
Dilutive	$0.08	$0.05
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	31,278,660	28,244,913
Dilutive	34,682,827	31,619,913

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount				
Balances at September 30, 2014	31,278,660	$ 312,786	$ 267,917,729	$ (219,586,160)	$ (816,908)	$47,827,447
Share-based compensation:						
Issuance of options			36,300			36,300
Net income				2,883,196		2,883,196
Balances at December 31, 2014	31,278,660	$ 312,786	$ 267,954,029	$ (216,702,964)	$ (816,908)	$50,746,943

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,883,196	$ 1,470,123
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,430,289	450,144
Stock-based compensation	36,300	127,916
Amortization of deferred loan costs	10,050	-
Non-controlling interest	103,860	60,465
Changes in operating assets and liabilities:		
(Increase) decrease in -		
Accounts receivable, net	(9,752,544)	(7,767,299)
Net deferred taxes	-	
Inventories	(1,357,713)	-
Other assets	21,661	(73,116)
Prepaid expenses and other receivables	(1,399,800)	(1,067,681)
Increase (decrease) in -		
Accounts payable	991,872	377,504
Accrued expenses	1,711,330	1,157,655
Workman's compensation reserve	79,978	162,503
Deferred revenue	(1,624,022)	1,886,046
Unearned revenue	(28,083)	(13,725)
Customer deposits	1,041,936	-
Other liabilities	777,786	755,285
Capital lease obligations	258,862	(74,262)
Income taxes payable	15,115	122,432
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(4,799,927)	(2,426,010)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Faneuil	-	(19,426,081)
Purchase of Carpets	-	-
Purchase of fixed assets	(3,347,215)	(1,784,122)
Proceeds from sale of non-controlling interest in Faneuil	-	1,100,000
NET CASH USED IN INVESTING ACTIVITIES	(3,347,215)	(20,110,203)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment on Faneuil's M&T Note Payable	(950,000)	
Repayment on ALJ's M&T Note Payable	(200,000)	
Repayment on Carpet's Notes Payable	(13,335)	
Proceeds from Faneuil's Line of Credit	1,500,000	
Proceeds from Carpet's Line of Credit	1,469,000	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,805,665	
NET CASH (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES	(6,341,477)	(22,536,213)
CASH AND CASH EQUIVALENTS		
Net (decrease)	(6,341,477)	(22,536,213)
Balance at beginning of period	10,078,301	27,825,326
Balance at end of period	3,736,824	5,289,113
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	229,908	257,714
Taxes	209,148	-

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

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2014

1. Organization and Basis of Presentation

Basis of Presentation

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

As further described in Note 3 below, on October 18, 2013, ALJ acquired substantially all of the capital stock of Faneuil, Inc. (including its subsidiaries, "Faneuil"). Faneuil is a leading provider of outsourcing and co-sourced services to both commercial and government entities in the healthcare, utility, toll and transportation industries. ALJ has included the operations of Faneuil in its consolidated financial statements since October 19, 2013 (see Note 3).

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

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

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

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

Liquidity and Capital Resources

For the three months ended December 31, 2014, the Company recognized net income of $2.9 million, generated positive cash flow from financing activities of $1.8 million, offset by cash used in operating activities of $4.8 million and investing activities of $3.3 million. The Company had an accumulated deficit of $216.7 million and stockholder's equity of $50.7 million at December 31, 2014.

For the three months ended September 30, 2014, the Company recognized net income of $6.7 million, and generated cash flow from operating activities of $4.1 million, offset by cash used in investing activities of $1.9 million and cash used from financing activities of $5.7 million. The Company had an accumulated deficit of $219.6 million and stockholder's equity of $47.8 million at September 30, 2014.

For the three months ended December 31, 2013, the Company recognized net income of $1.5 million, and used cash flow from investing activities of $20.1 million, primarily related to the purchase of Faneuil of $19.4 million, and used cash from operating activities of $2.4 million. The Company had an accumulated deficit of $233.8 million and stockholder's equity of $31.9 million at December 31, 2013.

ALJ believes that its current cash resources will be adequate to fund its operations through December 31, 2015. However, to the extent the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding company, whose primary assets as of December 31, 2014 were substantially all of the outstanding capital stock of Faneuil and Carpets. ALJ acquired Faneuil on October 18, 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 call center services, back office operations, staffing services, and toll collection services to government and regulated commercial clients across the United States. The Company is headquartered in Hampton, Virginia.

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

Cash and Cash Equivalents

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

Accounts Receivable

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

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

Stock-Based Compensation

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

Inventory

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

Property, Plant and Equipment

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

Depreciation is provided principally over the following useful lives:

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

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

Customer Deposits

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

Revenue Recognition

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

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

Deferred revenue represents amounts billed to the customer in excess of amounts earned. In situations where the Company receives payment in advance of the performance of services, such amounts are

recorded as deferred revenue and recognized as revenue during the period in which the related services are performed.

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

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

Insurance Reserves

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

Goodwill and Intangible Assets

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

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

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

Customer relationships	12.5 years
Internal software	6 years
Trade name	Indefinite

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

Customer relationships	15 years
Non-Compete	6 years
Contract backlog	1 year
Trade name	15 years

Loan Costs

The Company amortized its loan costs from origination date through the loan maturity date. The loan cost amortization expense was $10,050, and $0, for the three months ended December 31, 2014 and 2013, 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.

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

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

Use of Estimates and Assumptions

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

Concentrations

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

Faneuil. For the three months ended December 31, 2014, the Company had two customers associated with four contracts of which approximately $7.9 million and $4.1 million were included in accounts receivable at December 31, 2014. For the three months ended December 31, 2013, the Company had one customer of which approximately $6.9 million was included in accounts receivable at December 31, 2013.

For the three months ended December 31, 2014, the Company had eight contracts that each independently contributed more than 5% of total revenue. In the aggregate these contracts accounted for $32.1 million, or 78.8% of total revenue. Two of these contracts independently contributed more than 10% of revenue, at 18.3% and 17.5% of revenue respectively.

For the three months ended September 30, 2014, the Company had seven contracts that each independently contributed over 5% of total revenue. In the aggregate these contracts accounted for $27.5 million, or 77.1% of total revenue. Two of these contracts independently contributed more than 10% of revenue, at 21.3% and 16.4% of revenue respectively.

For the three months ended December 31, 2013, the Company had seven contracts that each independently contributed over 5% of total revenue. In the aggregate these contracts accounted for $21.1 million, or 82.4% of total revenue. Three of these contracts independently contributed more than 10% of revenue, at 26.7%, 13.6%, and 10.9% of revenue respectively.

Carpets. For the three months ended December 31, 2014, the Company had 4 customers that accounted for approximately 27.4%., 22.3%, 17.4%, and 15.3% of net revenue, of which approximately $1.1 million, $0.9 million, $0.7 million and $0.6 million, respectively, were included in accounts receivable at December 31, 2014.

Carpets. For the three months ended December 31, 2014, the Company had 3 suppliers that accounted for approximately 21.4%, 18.0% and 11.7% of inventory purchases, of which approximately $1.1 million, $0.9 million and $0.6 million, respectively, were included in accounts payable at December 31, 2014.

Earnings Per Share

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

The following table summarizes the basic and diluted weighted average shares for the three months ended December 31, 2014 and 2013:

	Three Months Ended December 31,	
	2014	**2013**
Weighted average shares outstanding, basic	31,278,660	28,244,913
Dilutive effect of:		
Options to purchase common stock	3,404,167	3,375,000
Weighted average shares outstanding, diluted	34,682,827	31,619,913

3. Acquisition of Faneuil

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

Further, a Voting and Investor Rights Agreement was signed on October 18, 2013, by and among ALJ, Harland Clarke, Faneuil, Ms. Van Buren and Mr. Ravich, in his capacity as a stockholder of ALJ, which provides: (i) Harland Clarke certain rights to nominate a director to ALJ's Board, (ii) that Mr. Ravich shall vote his shares of ALJ common stock in favor of such nominee, (iii) certain rights of first refusal, co-sale

and piggyback registration with respect to ALJ's shares of common stock held by Harland Clarke, and (iv) certain information rights with respect to Faneuil. Additionally, a Separation Agreement was signed on October 18, 2013, by and among ALJ, Harland Clarke, Faneuil and Scantron Corporation ("Scantron"), which agreement unwound certain affiliate arrangements between Faneuil, on the one hand, and Harland Clarke and Scantron, on the other hand, and provides for certain transition services to be provided by Scantron to Faneuil.

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

4. Acquisition of Carpets

Effective April 1, 2014, ALJ acquired all of the equity interests of 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.

6. Discontinued Operations

As of December 31, 2014 and September 30, 2014, the Company maintained an estimated accrual of liabilities associated with discontinued operations of $298,000, remaining from its previously discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the previously discontinued businesses.

7. Accounts Receivable

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

	December 31, 2014	September 30, 2014
	Unaudited	
Accounts receivable	$ 32,153,703	$ 24,518,566
Unbilled receivables	4,832,457	2,539,225
Less: Allowance for doubtful accounts	(1,791,789)	(1,615,964)
Total	$ 35,194,371	$ 25,441,827

8. Property, Plant and Equipment

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

	December 31, 2014	September 30, 2014
	Unaudited	
Computer and office equipment	$ 8,541,668	$ 6,869,347
Computer software	6,943,959	6,749,582
Furniture and fixtures	3,071,734	2,446,621
Leasehold improvements	4,293,903	3,093,982
Warehouse equipment	169,476	139,078
Construction in progress	-	380,077
Automobiles	13,760	8,598
Total	23,034,500	19,687,285
Less: Accumulated depreciation and amortization	(11,599,529)	(10,626,241)
	$ 11,434,971	$ 9,061,044

Depreciation expense was $973,289 for the three months ended December 31, 2014.

9. Intangible Assets

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

	December 31, 2014	September 30, 2014
	Unaudited	
Customer relationships	$ 13,570,000	$ 13,570,000
Trade name	2,020,000	2,020,000
Internal software	580,014	580,014
Non-compete agreements	2,020,000	2,020,000
Contract backlog	80,000	80,000
Total	18,270,014	18,270,014
Less: Accumulated amortization	(1,947,557)	(1,490,556)
	$ 16,322,457	$ 16,779,458

Amortization expense was $457,001 for the three months ended December 31, 2014.

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	7,908,581
	$ 16,322,457

10. Goodwill

Goodwill at December 31, 2014 and September 30, 2014 consisted of the following:

	December 31, 2014	September 30, 2014
	Unaudited	
Trained and assembled workforce	$ 11,400,000	$ 11,400,000
Residual goodwill	10,883,308	10,883,308
Total	$ 22,283,308	$ 22,283,308

11. Business Segment Information

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

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

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

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

	Three Months Ending December 31, 2014		Three Months Ending December 31, 2013	
Net Revenue				
Faneuil	40,738,375	82%	25,833,314	100%
Carpets	9,126,246	18%	-	0%
Consolidated	49,864,621	100%	25,833,314	100%
Cost of revenue				
Faneuil	31,506,104	63%	20,261,121	78%
Carpets	7,769,059	15%	-	0%
Consolidated	39,275,163	79%	20,261,121	78%
Gross Margin				
Faneuil	9,232,271	19%	5,572,193	22%
Carpets	1,357,187	3%	-	0%
Consolidated	10,589,458	22%	5,572,193	22%
Selling, general and administrative				
Faneuil	3,878,321	8%	2,932,899	8%
Carpets	1,479,207	3%	-	0%
Consolidated	5,357,528	11%	2,932,899	8%
Depreciation and amortization				
Faneuil	1,239,546	2%	450,144	2%
Carpets	190,744	0%	-	0%
Consolidated	1,430,290	3%	450,144	2%
Segment operating profit				
Faneuil	4,114,404	8%	2,189,150	12%
Carpets	(312,764)	(1%)	-	0%
Consolidated	3,801,640	8%	2,189,150	12%
Parent company expenses	361,199	1%	278,462	1%
Operating income	3,440,441	7%	1,910,688	10%
Non-cash Compensation	36,300	0%	127,916	0%
Consolidated adjusted EBITDA*	4,907,031	10%	2,488,748	13%
Total assets				
Faneuil	85,957,536		72,440,802	
Carpets	13,130,276		-	
ALJ	6,236,682		3,480,523	
Consolidated	105,324,494		75,921,325	
Total liabilities				
Faneuil	45,180,418		43,652,353	
Carpets	6,728,224		-	
ALJ	2,668,909		412,504	
Consolidated	54,577,551		44,064,857	

* 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.

12. Line of Credit and Notes Payable – Faneuil

Line of credit and term loan with M&T Bank

On September 30, 2014, Faneuil refinanced its $25.0 million Harland Clarke Note and its $5million Senior Credit Facility with M&T Bank (see below). Faneuil owed $21.6 million inclusive of accrued interest remaining on the Harland Clarke Note, and at closing paid down $2.6 million from cash on hand, leaving $19.0 million, which was refinanced under a term loan ("Term Loan") with M&T Bank. The $19.0 million term loan 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 2.50%. The Term Loan and Revolver are guaranteed by Faneuil and secured by a lien on all of the corporate assets of Faneuil. Faneuil owed $18.0 million and $19.0 million on the term loan as of December 31, 2014 and September 30, 2014, respectively. Faneuil owed $1.5 million and $0 on the Revolver as of December 31, 2014 and September 30, 2014, respectively.

On October 18, 2013, Faneuil entered into the initial 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 was secured by substantially all of Faneuil's assets. 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 Harland Clarke Note provided for a two-year maturity with interest in the first year at five percent (5%) and interest in the second year at seven and one half percent (7.5%). The Harland Clarke Note had mandatory payments of $1,000,000 per quarter with an annual cash flow sweep based on a defined free cash calculation. Faneuil's obligations under the Harland Clarke Note were secured by a pledge of the Faneuil stock held by ALJ, subject to certain limitations.

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	2,850,000
Thereafter	$ 18,050,000

13. 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. Carpets owed $1.5 million and $0 under Carpet's Revolver as of December 31, 2014 and September 30, 2014, respectively.

InterCompany Note Payable
In April 2014, Carpets issued ALJ a Note Payable for aggregate principal of $1.0 million. Interest accrues at 4.0% on the available balance and is due in full on December 15, 2015. Carpets owed $1.0 million under the note payable plus accrued interest of $26,500 and $16,500 as of December 31, 2014 and September 30, 2014, respectively. These amounts have been 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. Carpets owed $43,454 and $56,789 under these agreements as of December 31, 2014 and September 30, 2014, respectively, all of which are due during the year ending September 30, 2015.

14. Note Payable – ALJ

M&T Note Payable
On September 30, 2014, ALJ refinanced its note payable of $2.0 million due to a related party 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. The balance on the note was $1.8 million and $2.0 million as of December 31, 2014 and September 30, 2014, respectively.

Libra Note Payable
ALJ entered into a $2.0 million Promissory Note Payable with Libra Securities Holdings, LLC, a related party on April 7, 2014, which was refinanced on September 30, 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.

15. 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	$	4,138,518
2016		3,374,997
2017		2,957,852
2018		1,200,956
Thereafter		406,950
	$	12,079,273

During the three months ended December 31, 2014, rental expense under operating leases was $804,806.

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:

January 1, 2015 to December 31, 2015	$	122,253
January 1, 2016 to December 31, 2016		104,076
January 1, 2017 to December 31, 2017		95,403
Total minimum payments required		321,732
Less executory (maintenance) costs		0
Net minimum lease payments		321,732
Less imputed interest at rates ranging from 0% to 5.22%		19,482
Present value of net minimum lease payments	$	302,250

During the three months ended December 31, 2014, Carpets completed a fixed price job for a client and during the process it was deemed that some of the materials used in completing the work were faulty. As a preventative measure, Carpets and the general contractor repaired most of the work it had completed including a portion that may or may not have included faulty materials. The total amount of expenses incurred to repair the issues was $509,000, of which management believes it is probable that at least $229,058 will be reimbursed by insurance companies and paid by the general contractor. As a result, Carpets has recognized a $279,942 loss on this portion of the contract and has recorded a reserve of that amount in their financial statements as of December 31, 2014.

16. Income Taxes

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

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

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 December 31, 2014.

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 December 31, 2014 and September 30, 2014, respectively.

At December 31, 2014, the Company has net operating loss carryforwards for federal income tax purposes of approximately $164 million that expire from 2020 through 2028. The use of approximately $36 million of these net operating losses in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax ("AMT") rules could adversely affect the Company's ability to utilize these net operating losses.

The income tax provision is computed by applying the following rates to taxable income before income taxes for the three months ended December 31, 2014:

	2014
Tax at federal statutory rate	35.0%
Tax rate offset by our NOLs	(35.0%)
AMT rate on taxable income	2.0%
State income taxes	3.0%
	5.0%

17. Share-based Compensation and Stock Options

ALJ

The Company determines the fair value of all stock-based compensation, including stock options and warrants, by using the Black-Scholes option-pricing model. In selling, general and administrative expenses for the three months ended December 31, 2014 and 2013, the Company recognized share-based compensation expense of $13,251 and $20,350, respectively.

All share-based payments to employees are recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. The Company did not issue any stock options during the three months ended December 31, 2014. The Company issued options to purchase 100,000 shares of common stock during the three months ended December 31, 2013. These options began vesting on January 1, 2014. For calculating share-based compensation expense during the three months ended December 31, 2013, the Company computed volatility of 807% and a risk-free interest rate of 0.70%. Volatility was computed over the most recent period commensurate with the expected term of the options. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the stock options. The Company has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly uses an expected dividend yield of zero.

The summary of stock option activity for the three months ended December 31, 2014 is as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term
Balance outstanding as of September 30, 2014	3,475,000	$0.65	4.3 years
Issued	-	-	- years
Balance outstanding as of December 31, 2014	3,475,000	$0.65	4.3 years
Options vested as of December 31, 2014	3,408,333	$0.62	4.2 years

Faneuil

On October 18, 2013, the board of directors of Faneuil adopted the Faneuil, Inc. 2013 Stock Incentive Plan (the "Plan"). The aggregate number of shares of Faneuil's common stock which may be issued pursuant to awards under the Plan is 80,000 shares. Faneuil recognized share-based compensation expense of $23,049 and $107,566 included in the selling, general and administrative expenses for the three months ended December 31, 2014 and December 31, 2013, respectively.

On October 18, 2013, the board of directors of Faneuil granted an option to purchase 60,000 shares of Faneuil's common stock under the Plan to Ms. Van Buren, the chief executive officer of Faneuil. 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 calculating share-based compensation expense for Faneuil during the three months ended December 31, 2014, the Company computed volatility of 26.54% and a risk-free interest rate of 0.33%. Volatility was computed based on similar public company's volatility over the most recent period commensurate with the expected term of the stock options. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options. Faneuil has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly uses an expected dividend yield of zero.

18. Subsequent Events

In January 2015, the Company's Executive Chairman, Jess Ravich, exercised a portion of his stock options to purchase 2,000,000 shares of stock for $800,000. His shares were fully vested and had a strike price of $.40 per share.

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

GENERAL OVERVIEW

Commencing October 18, 2013, the Company has included the operations of Faneuil in its consolidated financial statements. Beginning April 1, 2014, the Company included the results of operations of Carpets in its consolidated financial statements. For historical purposes, the Company included KES as a discontinued operation through February 5, 2013, which was the date on which ALJ completed its sale of KES.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

Income Taxes

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

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2005 to 2013. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the

underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

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

Results of Operations for the Three Months Ended December 31, 2014 and 2013

The following table sets forth selected unaudited consolidated statements of operations data for each of the periods indicated on an actual basis and, with respect to the three months ended December 31, 2014, as a percentage of total revenues for the respective periods. The consolidated statements of operations include Faneuil for the period of October 18, 2013 through December 31, 2014 and Carpets for the period April 1, 2014 through December 31, 2014.

	December 31, 2014		December 31, 2013	
Net Revenue	$ 49,864,621	100%	$ 25,833,314	100%
Cost of revenue	39,275,163	79%	20,261,121	78%
Gross Profit	10,589,458	21%	5,572,193	22%
Selling, general and administrative	5,718,727	11%	3,211,361	12%
Depreciation and amortization	1,430,290	3%	450,144	2%
Income from operations	3,440,441	7%	1,910,688	7%
Dividend and interest income	2,795	0%	6,867	0%
Interest expense	(231,918)	0%	(264,528)	(1%)
Net income before income taxes and Non-controlling interest	3,211,318	6%	1,653,027	6%
Income taxes	(224,263)	0%	(122,432)	0%
Net income before Non-controlling interest	2,987,055	6%	1,530,595	6%
Non-controlling interest	(103,859)	0%	(60,472)	0%
Net income	2,883,196	6%	1,470,123	6%

The following table sets forth selected unaudited statements of operations data for the three months ended December 31, 2014 and 2013, respectively, on a segment by segment and consolidated basis.

	December 31, 2014	December 31, 2013
Net Revenue		
Faneuil	$ 40,738,375	$ 25,833,314
Carpets	9,126,246	-
Consolidated Net Revenue	49,864,621	25,833,314
Cost of revenue		
Faneuil	31,506,104	20,261,121
Carpets	7,769,059	-
Consolidated cost of revenue	39,275,163	20,261,121
Gross margin		
Faneuil	9,232,271	5,572,193
Carpets	1,357,187	-
Consolidated gross margin	10,589,458	5,572,193
Selling, general and administrative		
Faneuil	3,878,321	2,932,899
Carpets	1,479,207	-
ALJ	361,199	278,462
Consolidated selling, general and administrative	5,718,727	3,211,361
Depreciation and amortization		
Faneuil	1,239,546	450,144
Carpets	190,744	-
Consolidated selling, general and administrative	1,430,290	450,144

Net Revenue

Net revenue for the Faneuil segment for the three months ended December 31, 2014 was $40.7 million, an increase of $14.9 million, or 57.7%, over net revenue of $25.8 million for the three months ended December 31, 2013. The increase in net revenue was attributable to $9.1 million in new and expanded contracts and $5.8 million due to a longer reporting period for the quarter ended December 31, 2014. The increase in net revenue attributable to the $9.1 million in new and expanded contracts was related primarily

to contracts within the healthcare sector. Net revenue for the periods was generated from six verticals with the following contribution levels:

	December 31, 2014	December 31, 2013
Manual toll collection	24.1%	34.7%
Electronic toll collection	26.1%	25.6%
Healthcare	32.7%	16.4%
Government/municipal	7.6%	11.8%
Utilities	7.2%	9.7%
Commercial	2.3%	1.8%

The remaining increase in net revenue of $5.8 million was attributable to a full reporting period of 92 days for the three months ended December 31, 2014 compared to 74 days for the reporting period from October 18, 2013 through December 31, 2013.

Net revenue for the Carpets segment for the three months ended December 31, 2014 was $9.1 million, an increase of $9.1 million over net revenue of $0 for the three months ended December 31, 2013. The increase in net revenue was attributable to the operations of Carpets, which were not part of the Company's operations during the three months ended December 31, 2013. Net revenue for the period was generated from three divisions with the following contribution levels: Residential, 73.7%, Commercial, 15.6% and Retail, 10.7%.

Cost of Revenue

Cost of revenue for the Faneuil segment for the three months ended December 31, 2014 was $31.5 million, an increase of $11.2 million, or 55.5%, over cost of revenue of $20.3 million for the three months ended December 31, 2013. The increase in cost of revenue was attributable to $6.4 million from new and expanded contracts and $4.8 million from a longer reporting period for the quarter ended December 31, 2014.

Cost of revenue for the Carpets segment for the three months ended December 31, 2014 was $7.8 million, an increase of $7.8 million over cost of revenue of $0 for the three months ended December 31, 2013. The increase in cost of revenue was attributable to the operations of Carpets, which were not part of the Company's operations during the three months ended December 31, 2013.

Gross Profit

Gross profit for the Faneuil segment for the three months ended December 31, 2014 was $9.2 million, an increase of $3.7 million, or 65.7%, over gross profit of $5.6 million for the three months ended December 31, 2013. The increase in gross profit was attributable to $2.6 million from new and expanded contracts and $1.1 million from a longer reporting period for the three months ended December 31, 2014. Gross profit for the Faneuil segment as a percentage of revenue for the three months ended December 31, 2014 was 23% an increase of 1% over gross profit as a percentage of revenue for the three months ended December 31, 2013.

Gross profit for the Carpets segment for the three months ended December 31, 2014 was $1.4 million, an increase of $1.4 million over gross profit of $0 for the three months ended December 31, 2013. The increase in gross profit was attributable to the operations of Carpets, which were not part of the Company's operations during the three months ended December 31, 2013. Gross profit for the Carpets segment as a percentage of revenue for the three months ended December 31, 2014 was 15%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the Faneuil segment for the three months ended December 31, 2014 were $3.9 million, an increase of $945,422, or 32.2% over selling, general and administrative expenses of $2.9 million for the three months ended December 31, 2013. The increase was

primarily attributable to $0.6 million related to new and expanded contracts and $0.4 million from a longer reporting period for the three months ended December 31, 2014. Net increases of $0.6 million in selling, general and administrative expenses from new and expanded contracts include $316,718 in facility expenses, $212,807 in business taxes primarily related to the state of Washington, and $176,637 in advertising expenses, partially offset by a decrease of $285,208 in professional services.

Selling, general and administrative expenses for the Carpets segment for the three months ended December 31, 2014 were $1.5 million, an increase of $1.5 million over selling, general and administrative expenses of $0 for the three months ended December 31, 2013. The increase was primarily attributable to the operations of Carpets, which were not part of the Company's operations during the three months ended December 31, 2013.

Selling, general and administrative expenses for ALJ for the three months ended December 31, 2014 were $361,199, an increase of $82,737, or 29.7% over selling, general and administrative expenses of $278,462 for the three months ended December 31, 2013. The increase was primarily attributable to higher accounting and legal expenses for the three months ended December 31, 2014.

Depreciation and Amortization Expenses

Depreciation and amortization expenses for the Faneuil segment for the three months ended December 31, 2014 were $1.2 million, an increase of $789,402, or 175.4% over depreciation and amortization expenses of $450,144 for the three months ended December 31, 2013. The increase was primarily attributable to $684,091 related to new and expanded contracts.

Depreciation and amortization expenses for the Carpets segment for the three months ended December 31, 2014 were $190,744, an increase of $190,744 over depreciation and amortization expenses of $0 for the three months ended December 31, 2013. The increase was primarily attributable to the operations of Carpets, which were not part of the Company's operations during the three months ended December 31, 2013.

Liquidity and Capital Resources – December 31, 2014

The Company recognized net income of $2.9 million for the three months ended December 31, 2014 and generated positive cash flow from financing activities of $1.8 million offset by cash used in operating activities of $4.8 million and investing activities of $3.3 million. The Company had an accumulated deficit of $216.7 million and stockholders' equity of $50.7 million at December 31, 2014.

ALJ believes that its cash resources will be adequate to fund its operations through December 31, 2015. However, to the extent that the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

Operating Activities

During the three months ended December 31, 2014, the Company used $4.8 million in operating activities, primarily attributable to an increase of $9.8 million in accounts receivable, $1.3 million in inventory and $1.4 million in prepaid expenses and a decrease of $1.6 million in deferred revenue, partially offset by $2.9 million in net income, $1.4 million in depreciation and amortization and increases of $1.7 million in accrued expenses and $1.0 million in customer deposits.

Investing Activities

For the three months ended December 31, 2014, the Company used cash from investing activities of $3.3 million related to the purchase of fixed assets, primarily associated with the build out costs for new facilities for Faneuil contracts.

Financing Activities

For the three months ended December 31, 2014, the Company generated cash from financing activities of $1.8 million, primarily related to proceeds of $1.5 million from the Faneuil Line of Credit and $1.5 million from the Carpets Line of Credit.

Principal Commitments

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

Contractual cash obligations	Payments Due by Twelve Month Periods Ending December 31, (in thousands)					
	Total	2015	2016	2017	2018	Thereafter
Faneuil - Note payable – M&T	18,050	3,800	3,800	3,800	3,800	2,850
Faneuil – Line of Credit – M&T Bank	1,500	-	1,500	-	-	-
ALJ – Note payable – M&T	1,800	800	800	200	-	-
Carpets – Line of Credit – M&T	1,469	-	1,469	-	-	-
Carpets – ST Note payable	43	43	-	-	-	-
Faneuil – Operating Leases	10,198	3,721	2,820	2,591	856	210
Carpets – Operating Leases	1,881	417	555	367	345	197
Faneuil – Capital Lease Obligations	302	102	105	95	-	-
Total contractual Cash obligations	$35,243	$8,883	$11,049	$7,053	$5,001	$3,257

Faneuil has committed an additional $1.0 million towards capital expansion projects directly related to awarded contracts.

Off-Balance Sheet Arrangements

Faneuil has executed a $1.0 million letter of credit with M&T Bank. The letter of credit reduces the total amount Faneuil can borrow against its line of credit with M&T Bank. As of December 31, 2014, Faneuil has an available line of credit balance of $2.0 million.

ITEM 5. LEGAL PROCEEDINGS

The Company's subsidiaries are from time to time defendants in actions for matters arising out of normal business operations. The Company concluded as of December 31, 2014 that no legal proceedings then pending or threatened will have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

ITEM 6. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 7. OTHER INFORMATION

None.

RISK FACTORS

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

Risks Related to Faneuil

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

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

One or a few contracts 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 three months ended December 31, 2014, the Company had eight contracts that each independently contributed more than 5% of total revenue. In the aggregate these contracts accounted for $32.1 million, or 78.8% of total revenue. Two of these contracts independently contributed more than 10% of revenue, at 18.3% and 17.5% of revenue respectively. 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 consequently, 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.

Faneuil is 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 among the various jurisdictions in which Faneuil provides services. Violations of these laws and regulations could result in liability for damages, fines, criminal prosecution, unfavorable publicity and restrictions on Faneuil's ability to operate. Faneuil's failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to Faneuil's reputation in the marketplace, which could have a material adverse effect on Faneuil's business, results of operations and financial condition. In addition, because a substantial portion of Faneuil's operating costs consist of labor costs, changes in governmental regulations relating to wages, healthcare and healthcare reform and other benefits or employment taxes could have a material adverse effect on Faneuil's business, results of operations or financial condition.

Faneuil may incur material restructuring charges in the future.

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

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

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

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

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 their prices, their margins or demand for their products and services. If they 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 their financial performance could be adversely affected.

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

Carpets operates in a market sector where demand is strongly influenced by rapidly changing customer preferences as to product design and features. Their success depends on their ability to anticipate and react to changing consumer demands in a timely manner. All of their products are subject to changing consumer

preferences that cannot be predicted with certainty. In addition, long lead times for certain of their products may make it hard for them 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 they carry altogether, and their future success depends, in part, on their 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 their financial condition.

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

Carpets sources, stocks and sells products from vendors and their ability to reliably and efficiently fulfill their orders is critical to their business success. Their ability to continue to identify and develop relationships with qualified suppliers who can satisfy our standards for quality and their need to access products in a timely, efficient and cost-effective manner is a significant challenge. Their 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 their control. If these vendors fail or are unable to perform as expected and they are unable to replace them quickly, their business could be adversely affected, at least temporarily, until they 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 Carpets' image with customers and negatively impact their 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 Carpets is unable to effectively manage their installation service business, we could suffer lost sales and be subject to fines, lawsuits and damaged reputation.

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

Carpets' business is dependent on estimating fixed price projects correctly and completing the installations within budget. We could suffer losses associated with installations on our fixed price projects.

Most of Carpets' business is fixed price projects which are bid and contracted based on estimated costs. The estimating process includes budgeting for the appropriate amount of materials, labor and overhead. At times, this work can be substantial and as a result our ability to estimate costs correctly and our ability to complete the project within budget or satisfaction without material defect is essential. If they are unable to estimate a project properly or unable to complete the project within budget or without material defect, they may suffer losses, which could adversely affect our reputation, business, and financial condition.

Carpets' success depends upon their ability to attract, train and retain highly qualified associates while also controlling their labor costs.

Carpets' customers expect a high level of customer service and product knowledge from their associates. To meet the needs and expectations of their customers, they must attract, train and retain a large number of highly qualified associates while at the same time controlling labor costs. Their 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, Carpets competes with other retail businesses for many of their associates in hourly positions, and they 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 they 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 and negative 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 Carpets 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 ALJ, Faneuil or Carpets will generate sufficient cash flow from operations, or that future borrowings will be available to ALJ, Faneuil or Carpets in amounts sufficient to enable us or them to pay any of our respective indebtedness, or to fund our or their other liquidity needs. We cannot assure you that we, ALJ, Faneuil, or Carpets 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 December 31, 2014. The NOLs begin to expire in 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs would have a negative impact on our financial position and results of operations.

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

In May 2009, we announced that our Board adopted a shareholder rights plan the Rights Plan designed to preserve stockholder value and the value of certain tax assets primarily associated with NOLs and built in losses under Section 382 of the Code. We also amended our certificate of incorporation to add certain restrictions on transfers of our stock that may result in an ownership change under Section 382.

Our internal controls and procedures may be deficient.

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

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

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

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

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

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

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

The market price of our common stock is volatile.

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

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

In addition, 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 December 31, 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.

ITEM 8. EXHIBITS

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

EXHIBITS

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

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

Certification of the Chief Executive Officer

I, Jess Ravich, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended December 31, 2014;

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

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

Date: February 11, 2014

/S/ Jess Ravich
Jess Ravich,
Executive Chairman

Certification of the Chief Financial Officer

I, T. Robert Christ, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended December 31, 2014;

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

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

Date: February 11, 2014

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