
ALJ REGIONAL HOLDINGS, INC.

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

(888) 486-7775

Jess.Ravich@ALJRegionalHoldings.com

Quarterly Report For the Quarter Ended December 31, 2022

As of January 31, 2023, the number of shares of common stock, \$0.01 par value per share, outstanding was 26,052,348.

Indicate by check mark whether the company is a shell company (as defined in Rule 12b-2 of the Exchange Act of 1934): Yes No

Indicate by check mark whether the company's shell status has changed since the previous reporting period: Yes No

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period: Yes No

ALJ REGIONAL HOLDINGS, INC.
QUARTERLY REPORT
FOR THE QUARTER ENDED DECEMBER 31, 2022
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FORWARD-LOOKING STATEMENTS

The statements included in this quarterly report regarding future financial performance, results and conditions and other statements that are not historical facts, including, among others, the statements regarding competition, the Company's intention to retain earnings for use in the Company's business operations, the Company's ability to continue to fund its operations and service its indebtedness, the adequacy of the Company's accrual for tax liabilities, management's projection of continued taxable income, and the Company's ability to offset future income against net operating loss carryovers, constitute forward-looking statements. The words "can," "could," "may," "will," "would," "plan," "future," "believes," "intends," "expects," "anticipates," "projects," "estimates," and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. Actual results or events could differ materially from those set forth or implied by such forward-looking statements and related assumptions due to certain important factors, including, without limitation, the risks set forth under the caption "Risk Factors" below, which are incorporated herein by reference. Some, but not all, of the forward-looking statements contained in this quarterly report include, among other things, statements about the following:

- any statements regarding our expectations for future performance;
- our ability to identify, consummate, and integrate business acquisitions;
- our ability to compete effectively;
- statements regarding future revenue and the potential concentration of such revenue coming from a limited number of customers;
- our ability to meet customer needs;
- regulatory compliance costs;
- the potential adverse impact of the novel coronavirus disease ("COVID-19") pandemic on our business, operations and the markets and communities in which we and our customers, vendors and employees operate;
- our ability to manage ongoing supply chain disruptions and constraints due primarily to the restriction of employee movements, key material and labor shortages, and transportation constraints;
- our ability to improve margins and profitability on contracts we enter into; and
- the other matters described in "Risk Factors" herein.

The Company is also subject to general business risks, including results of tax audits, adverse state, federal or foreign legislation and regulation, changes in general economic conditions, 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 quarterly report are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any forward-looking statements.

PART I – INFORMATION PURSUANT TO PINK BASIC DISCLOSURE GUIDELINES

ITEM 1 – GENERAL COMPANY INFORMATION.

ALJ Regional Holdings, Inc. (including subsidiaries, referred to collectively in this report as “ALJ,” the “Company” or “we”) is a holding company and its principal mailing address and phone number are:

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

The Company was originally incorporated in the State of Delaware under the name Nuparent, Inc. on June 22, 1999. The Company’s name was changed to YouthStream Media Networks, Inc. on June 24, 1999 and that name was used through October 23, 2007. The Company’s name was changed to ALJ Regional Holdings, Inc. on October 23, 2007.

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

The Company’s investor relations contact is Jess Ravich, the Company’s Chief Executive Officer. Mr. Ravich can be reached at (888) 486-7775.

Suspension Orders Issued by the Securities and Exchange Commission (“SEC”)

Neither the Company nor any of its predecessors has received any trading suspension orders issued by the SEC.

Bankruptcy, Receivership, or Similar Proceeding

Neither the Company nor any of its predecessors has been in bankruptcy, receivership, or any similar proceeding in the past five years.

Stock Split, Stock Dividend, Recapitalization, Merger, Acquisition, Spin-off, or Reorganization

Although the Company has not completed a stock split, stock dividend, recapitalization, merger, spin-off, or reorganization during the past 12 months, the Company has entered into several transactions that have had, and will continue to have, a significant impact on ALJ’s financial position, results of operations, and cash flows. See further discussion at [Item 5. Business, Products, and Services](#).

ITEM 2 – SECURITY INFORMATION.

The following table sets forth certain information about our securities.

Description	As of December 31, 2022
Exact title and class of securities outstanding	Common stock
Trading symbol	ALJJ
CUSIP	001627108
Par or stated value	\$ 0.01
Total shares authorized	100,000,000
Total shares outstanding	26,052,348
Total number of shares in the Public Float	7,800,760
Total number of shareholders of record	112

In August 2018, ALJ shareholders approved the amendment and restatement of ALJ’s Restated Certificate of Incorporation to authorize the issuance of 5.0 million shares of blank check preferred stock. To date, ALJ has not issued any preferred stock.

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) 921-8300

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

ITEM 3 – ISSUANCE HISTORY.

Changes to the Number of Outstanding Shares

The following table sets forth changes to ALJ’s common stock from October 1, 2020 to December 31, 2022. There was no preferred stock activity from October 1, 2020 to December 31, 2022.

Description/Reason for Issuance	Transaction Type	Number of Shares	Value of Shares (000s)	Shares Issued at a Discount?	Individual or Entity	Restricted or Unrestricted	Exemption or Registration Type
Beginning balance, October 1, 2020		42,297,792					
Issuance of common stock to members of ALJ’s board of directors	Issue	125,913	\$ 185	No	Individual	Unrestricted	S-8
Issuance of common stock upon cashless exercise of stock options	Issue	26,361	\$ —	No	Individual	Unrestricted	S-8
Share repurchases and retirements (excluding ALJ’s December 1, 2022 Tender Offer)	Repurchase	(6,160,773)	\$ (12,153)	No	Individual/Entity	Unrestricted	
Share repurchases and retirements - Pursuant to ALJ’s December 1, 2022 Tender Offer	Repurchase	(10,236,945)	\$ (20,372)	No	Individual/Entity	Unrestricted	
Ending balance, December 31, 2022		26,052,348					

Debt Securities, Including Promissory and Convertible Notes

The following table sets forth certain terms of ALJ’s Convertible Promissory Notes. ALJ did not have any other debt securities outstanding during the periods covered by this quarterly report.

Date of Note Issuance	Outstanding Balance (000s)	Principal Balance at Issuance (000s)	Interest Accrued	Maturity Date	Conversion Terms	Name of Note Holder	Reason for Issuance
June 29, 2021	\$ 1,614	\$ 1,614	Paid quarterly	November 28, 2023	*	Elizabeth Glazer 2012 Trust	Working Capital
June 29, 2021	4,412	4,412	Paid quarterly	November 28, 2023	*	Jess Ravich	Working Capital
	\$ 6,026	\$ 6,026					

* The principal and accrued interest owed under the Convertible Promissory Notes are convertible, at the option of the holders, into shares of the Company’s common stock, at any time prior to November 28, 2023, at a conversion price equal to the quotient of all amounts due under each Convertible Promissory Note divided by the conversion rate of \$0.54 per common share.

ITEM 4 – FINANCIAL STATEMENTS.

The financial statements required by this item are included at [Part III – Quarterly Financial Statements \(Unaudited\)](#).

ITEM 5 – BUSINESS, PRODUCTS, AND SERVICES.

Organization

ALJ is a holding company. During the quarter ended December 31, 2022, ALJ consisted of the following subsidiaries:

- Faneuil, Inc. (including its subsidiaries, “Faneuil”). ALJ owns 100% of Faneuil, 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, focusing on the healthcare, utility, transportation, and toll revenue collection industries. Faneuil is headquartered in Hampton, Virginia. ALJ acquired Faneuil in October 2013. On April 1, 2022, ALJ completed the sale of Faneuil’s tolling and transportation and health benefit exchange verticals (“Faneuil Asset Sale”).
- Realtime Digital Innovations, LLC (d/b/a Vistio) (“Vistio”). ALJ owns 100% of Vistio, a leading provider of technology to empower call center agents with the tools they need to be more productive. Vistio has over 20 years of experience across industries and government helping customers optimize their contact centers by (i) automating process workflows and business intelligence, (ii) generating labor efficiencies for existing programs, (iii) expanding potential new client target entry points, (iv) improving overall customer experience, and (v) increase margin profiles through shorter sales cycles and software license sales. Vistio was acquired in July 2019 under the name Realtime Digital Innovations, LLC (“RDI”). In 2021, RDI rebranded itself as Vistio with a renewed mission to change how contact centers work. Vistio is headquartered in Charleston, South Carolina. On January 1, 2023, the Company completed an internal reorganization merging Vistio with and into ALJ Vistio QOZB LLC (“VQOZB”), each a wholly owned subsidiary of the Company, with VQOZB as the surviving entity.
- Ranew’s Companies. On September 28, 2022, Resin Acquisition Corp., an 80.01% subsidiary of the Company, acquired the equity interests of Ranew’s Truck & Equipment Company, LLC, Ranew’s Outdoor Equipment, Inc., Ranew’s Management Company, Inc., Ranew’s Well Services Division, LLC, Ranew’s Companies, LLC and Ranew’s of Texas, Incorporated (collectively, “Ranew’s Companies,” and such acquisition, the “Ranew’s Acquisition”). Ranew’s Companies, headquartered in Milner, Georgia, are leading suppliers of industrial coating services to multinational manufacturers of equipment and a provider of precision fabrication and assembly and logistics services.

During the quarter ended December 31, 2021, ALJ owned a fourth segment, Phoenix Color Corp. (including its subsidiaries, “Phoenix”). Phoenix is a leading manufacturer of book components, educational materials and related products producing value-added components, heavily illustrated books and commercial specialty products using a broad spectrum of materials and decorative technologies. Phoenix is headquartered in Hagerstown, Maryland. ALJ acquired 100% of Phoenix in August 2015. On April 13, 2022, ALJ completed its sale of Phoenix (“Phoenix Sale”).

Recent Investments

The following is a summary of the recent transactions involving investments by ALJ:

- Caprice Capital Partners, LLC. On June 20, 2022, the Company entered into a subscription agreement with Caprice Capital Partners, LLC (“Caprice”) in the amount of \$5.0 million. Caprice is a private investment firm focused on providing debt and noncontrolling equity investments in small and lower-middle-market companies based in the United States.
- Hallador Energy Company. On August 12, 2022, the Company purchased an unsecured convertible promissory note (the “Note”) from Hallador Energy Company (NASDAQ: HNRG) (“Hallador”) for a principal sum of \$10.0 million. The Note bears interest at 8.0% per annum paid, at Hallador’s discretion, in cash or in shares of Hallador common stock at the lower of 30-day volume weighted average price (“VWAP”) or \$6.15 (the trailing VWAP on closing). The principal balance and all accrued and unpaid interest are required to be paid on the Note’s maturity date of December 31, 2026, and no prepayments are permitted. The Note also contains a right to convert the principal and accrued interest amounts outstanding on the Note (in whole and not in part) into shares of Hallador common stock at a fixed conversion price of \$6.15 (the trailing VWAP on closing).
- A-Mark Precious Metals, Inc. In September 2022, the Company purchased 350,000 shares of common stock of A-Mark Precious Metals, Inc. (NASDAQ: AMRK) (“A-Mark”). A-Mark is a fully integrated precious metals platform that offers an array of gold, silver, platinum, palladium, and copper bullion, numismatic coins, and related products to wholesale and retail customers via a portfolio of channels.
- Qualified Opportunity Zone Investment. As a result of the capital gains generated by the Faneuil Asset Sale and the Phoenix Sale, the Company invested \$20.0 million in a newly formed Qualified Opportunity Zone investment entity (“ALJ QOZ”) on September 26, 2022 for the purpose of investing such funds in a Qualified Opportunity Zone (an economically distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment) business by June 30, 2023. As a result of investing in a Qualified Opportunity Zone, the Company may have the ability to defer the recognition of related capital gains.

- In December 2022, the ALJ QOZ invested \$10.1 million in GPWM Funds, a real estate real estate fund that provides investors with tax advantaged real estate investing in qualified opportunity zones. The \$10.1 million is specifically invested, along with other qualified opportunity fund investors, in a renovation project in Reno, NV (known as “Reno City Center”). Reno City Center, which acquired a property previously operated as Harrah’s Hotel & Casino, is converting the existing 930 hotel rooms into 529 multi-family units; 130,200 square feet of office; 94,415 square feet of retail and restaurants; and 59,800 square feet of climate-controlled storage. Reno City Center is situated in the heart of downtown Reno, a block from the Truckee River and within one mile of The University Nevada, Reno, and is expected to be fully renovated operational by late 2023.

ITEM 6 – PROPERTIES.

In addition to ALJ’s corporate mailing address at 244 Madison Avenue, PMB #358, New York, NY 10016, each of ALJ’s subsidiaries has leased property as discussed below.

ALJ Corporate

In December 2022, ALJ purchased a 2,547 square foot office condominium in Aurora, IL for the purpose of leasing the condominium to Vistio. In January 2023, ALJ and Vistio entered a 10-year lease.

Faneuil

Faneuil leases all its properties in various locations throughout the United States for customer contact centers, walk-in retail, and administration. Faneuil’s corporate headquarters are in Hampton, VA. Faneuil’s leased facilities comprise an aggregate of approximately 303,147 square feet with leases that expire at various dates through June 2030. Faneuil believes that its existing leased facilities are adequate for current requirements.

Vistio

In addition to the aforementioned lease between Vistio and ALJ Corporate, Vistio leases property in the Charleston Tech Center in Charleston, SC, the Mile High Coworking in Denver, CO, and the Bigelow in Ogden, UT. Vistio’s leased facilities comprise an aggregate of approximately 2,500 square feet, which are month-to-month. Vistio believes that its existing leased facilities are adequate for current requirements.

Ranew’s Companies

Ranew’s Companies leases all of its properties in various locations throughout Georgia and Kansas. Ranew’s Companies corporate headquarters are located in Milner, GA. Ranew’s Companies leased facilities comprise an aggregate of approximately 441,850 square feet pursuant to one master lease that expires in September 2037. Ranew’s Companies believes that its existing leased facilities are adequate for current requirements.

ITEM 7 – LEGAL/DISCIPLINARY HISTORY.

To the best of our knowledge, none of our directors or officers has had a determination during the past ten years in any legal proceedings listed in Item 401(f) of Regulation S-K that may bear on his or her ability or integrity to serve as a director or officer of the Company.

ITEM 8 – THIRD-PARTY PROVIDERS.

Provide the name of any other service provider(s) that that assisted, advised, prepared or provided information with respect to this disclosure statement. This includes counsel, broker-dealer(s), advisor(s) or consultant(s) or provided assistance or services to the issuer during the reporting period.

<u>Securities Counsel</u>	
Name	Christopher M. Forrester
Firm	Shearman & Sterling, LLP
Address	1460 El Camino Real, 2nd Floor
Address	Menlo Park, CA 94025
Phone	(650) 838-3772
Email	Chris.forrester@shearman.com
<u>Accountant or Auditor</u>	
Name	None used
Firm	
Address	
Address	
Phone	
Email	
<u>Investor Relations</u>	
Name	None used
Firm	
Address	
Address	
Phone	
Email	
<u>Other Service Providers</u>	
Name	None used
Firm	
Address	
Address	
Phone	
Email	

ITEM 9 – ISSUER CERTIFICATIONS.

Principal Executive Officer

I, Jess Ravich, certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc.
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 the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 1, 2023

/s/ Jess Ravich

Jess Ravich

Chief Executive Officer

(Principal Executive Officer)

Principal Financial Officer

I, Jeffrey Wiens, certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc.
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 the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 1, 2023

/s/ Jeffrey Wiens

Jeffrey Wiens

Chief Financial Officer

(Principal Financial Officer)

PART II – ADDITIONAL INFORMATION

ITEM 10– MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

ALJ’s Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

- **Results of Operations.** An analysis comparing financial results for the quarter ended December 31, 2022 to the quarter ended December 31, 2021.
- **Liquidity and Capital Resources.** An analysis of changes in our cash flows and discussion of our financial condition and liquidity.
- **Contractual Obligations.** Discussion of our contractual obligations as of December 31, 2022.
- **Off-Balance Sheet Arrangements.** Discussion of our off-balance sheet arrangements as of December 31, 2022.
- **Critical Accounting Policies and Estimates.** This section provides a discussion of the significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included in [Part III – Financial Statements \(Unaudited\)](#). The following discussion contains a number of forward-looking statements that involve a number of risks and uncertainties. Words such as "anticipates," "expects," "intends," "goals," "plans," "believes," "seeks," "estimates," "continues," "may," "will," "should," and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements are based on our current expectations and could be affected by the risk and uncertainties described in [“Item 13 – Risk Factors.”](#) Our actual results may differ materially.

Results of Operations

The following table sets forth certain consolidated statements of operations data as a percentage of revenue, unless specifically footnoted, for each period as follows:

	Quarter Ended December 31, 2022		Quarter Ended December 31, 2021	
	Dollars	% of Revenue	Dollars	% of Revenue
<i>(in thousands, except per share amounts)</i>				
Revenue ⁽¹⁾ :				
Faneuil revenue	\$ 24,680	51.8%	\$ 74,779	100.0%
Faneuil other revenue	3,630	7.6	—	—
Ranew's Companies	18,771	39.4	—	—
Vistio	567	1.2	—	—
Consolidated revenue and other revenue	47,648	100.0	74,779	100.0
Cost of revenue ⁽²⁾ :				
Faneuil	23,111	81.6	65,358	87.4
Ranew's Companies ⁽³⁾	10,768	57	—	—
Vistio	407	71.8	2,167	—
Consolidated cost of revenue	34,286	72.0	67,525	90.3
Selling, general, and administrative expense ⁽²⁾ :				
Faneuil	3,565	12.6	(8,045)	(10.8)
Ranew's Companies	5,839	—	—	—
Vistio	751	132.5	3,198	—
ALJ	3,156	—	7,368	—
Consolidated selling, general, and administrative expense	13,311	27.9	2,521	3.4
Depreciation and amortization expense ⁽²⁾ :				
Faneuil	1,978	7.0	13,426	18.0
Ranew's Companies	258	—	—	—
Vistio	162	28.6	648	—
Consolidated depreciation and amortization expense ⁽⁴⁾	2,398	5.0	14,074	18.8
Loss on sale of assets and other	2	0.0	26	—
Total consolidated operating costs, expenses, and other, net	49,997	104.9	84,146	112.5
Consolidated operating loss	(2,349)	(4.9)	(9,367)	(12.5)
Interest, dividend, unrealized gain on investments, net, and other income	3,186	6.7	—	—
Interest expense	(166)	(0.3)	(2,705)	(3.6)
Benefit from income taxes	2	0.0	101	—
Net income (loss) from continuing operations	673	1.4	(11,971)	(16.0)
Net income from discontinued operations, net of income taxes	—	—	2,579	3.4
Net income (loss)	673		(9,392)	
Less: net income attributable to noncontrolling interests	374	0.8	—	—
Net income (loss)	\$ 299	0.6	\$ (9,392)	(12.6)
Income (loss) per share of common stock—basic:				
Continuing operations	\$ 0.01		\$ (0.28)	
Discontinued operations	—	—	0.06	—
Net loss per share ⁽⁵⁾	\$ 0.01		\$ (0.22)	
Income (loss) per share of common stock—diluted:				
Continuing operations	\$ 0.01		\$ (0.28)	
Discontinued operations	—	—	0.05	—
Net loss per share ⁽⁵⁾	\$ 0.01		\$ (0.22)	
Weighted average shares of common stock outstanding:				
Basic	36,120		42,407	
Diluted	48,476		54,439	

(1) Percentage is calculated as segment revenue divided by consolidated revenue.

(2) Percentage is calculated as a percentage of the respective segment revenue.

(3) Includes depreciation expense of \$0.4 million for the quarter ended December 31, 2022.

(4) Included with selling, general, and administrative expense on the consolidated statement of operations.

(5) Amounts may not add due to rounding.

Liquidity and Capital Resources

Historically, our principal sources of liquidity have been cash provided by operations and borrowings under various debt arrangements. During April 2022, the following transactions had, and will continue to have, a significant impact on our liquidity and capital resources:

- Faneuil Asset Sale
- Phoenix Sale

See “Note 4. Acquisitions, Divestitures, and Discontinued Operations” in [Part III – Quarterly Financial Statements \(Unaudited\)](#).

- Blue Torch/Term Loan Payoff
- Termination of Amended PNC Revolver

Summary of Cash Flows

In summary, our cash flows for each period were as follows:

<i>(in thousands)</i>	Quarter Ended December 31,	
	2022	2021
Cash used for operating activities	\$ (4,081)	\$ (2,676)
Cash provided by (used for) investing activities	49,801	(2,174)
Cash (used for) provided by financing activities	(24,558)	4,643
Change in cash and cash equivalents	\$ 21,162	\$ (207)

For the quarter ended December 31, 2022, we recognized a net income of \$0.7 million, used cash for operating activities of \$4.1 million, generated cash from investing activities of \$49.8 million, and used cash for financing activities of \$24.6 million.

For the quarter ended December 31, 2021, we recognized a net loss of \$9.4 million, used cash for operating activities of \$2.7 million, used cash for investing activities of \$2.2 million, and generated cash from financing activities of \$4.6 million.

Operating Activities

During the quarter ended December 31, 2022, our operating activities used cash of \$4.1 million, which was the result of our \$0.7 million net income, \$0.6 million addback for gains and non-cash expenses, and \$5.4 million of net cash used by changes in operating assets and liabilities. The most significant components of changes in operating assets and liabilities were accrued expenses of \$4.3 million, other current liabilities and other non-current liabilities of \$3.8 million, and accounts payable of \$1.8 million, which used cash, somewhat offset by accounts receivable of \$3.8 million, which provided cash.

During the quarter ended December 31, 2021, our operating activities used cash of \$2.7 million, which was the result of our \$9.4 million net loss, \$3.7 million addback of net non-cash expenses, and \$3.1 million of net cash provided by changes in operating assets and liabilities. The most significant component of net non-cash expenses was depreciation and amortization expense of \$3.4 million. The most significant components of changes in operating assets and liabilities were mostly attributable to the timing of cash receipts from Faneuil’s customers and repayment of 50%, or \$4.2 million, of payroll-related taxes, which were deferred in previous reporting periods under the CARES Act.

Cash used for operating activities for the quarter ended December 31, 2022 compared to the quarter ended December 31, 2021 was impacted by the Faneuil Asset Sale, Phoenix Sale, and purchase of Ranew’s Companies.

Investing Activities

During the quarter ended December 31, 2022, our investing activities provided \$49.8 million of cash, of which \$50.0 million was from the sale of short-term treasury bills and \$0.6 million cash received from the Ranew’s Companies acquisition final working capital adjustment, reduced by \$0.8 million of capital expenditures in the normal course of operations.

During the quarter ended December 31, 2021, our investing activities used \$2.2 million of cash, of which \$1.7 million was used to upgrade Phoenix’s printer equipment, and \$0.5 million was used to purchase computer equipment and software to support Faneuil’s existing customers.

Financing Activities

During the quarter ended December 31, 2022, our financing activities used \$24.6 million of cash. The most significant components of our financing activities were our share repurchases and retirements, which used \$22.1 million, and line of credit paydown by our subsidiary, Ranew’s Companies, which used \$2.2 million.

During the quarter ended December 31, 2021, our financing activities provided \$4.6 million of cash as a result of drawing down on our line of credit to pay short-term liabilities, including the repayment of the CARES Act payroll-related taxes discussed above.

Contractual Obligations

The Faneuil Asset Sale and the Phoenix Sale, which resulted in the Blue Torch Loan Payoff and Amended PNC Revolver termination, had a material impact to our contractual obligations. The following table summarizes contractual obligations on December 31, 2022, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Payments due by Period				
	Total	Less Than One Year	One – Three Years	Four – Five Years	More than Five Years
<i>(in thousands)</i>					
Operating lease obligations ⁽¹⁾	\$ 45,044	\$ 3,718	\$ 10,008	\$ 8,662	\$ 22,656
Other liabilities ⁽²⁾	5,619	900	4,719	—	—
Line of credit ⁽³⁾	755	755	—	—	—
Convertible Promissory Notes ⁽³⁾	6,026	6,026	—	—	—
Finance lease obligations ⁽¹⁾	134	134	—	—	—
Total contractual cash obligations ⁽⁴⁾	\$ 57,578	\$ 11,533	\$ 14,727	\$ 8,662	\$ 22,656

(1) Refer to “Note 11. Leases” in [Part III – Quarterly Financial Statements \(Unaudited\)](#).

(2) Amounts represent future cash payments to satisfy our short- and long-term workers’ compensation reserve and other long-term liabilities recorded on our consolidated balance sheets. It excludes deferred revenue and non-cash items.

(3) Refer to “Note 9. Debt” in [Part III – Quarterly Financial Statements \(Unaudited\)](#).

(4) Total excludes contractual obligations already recorded on our consolidated balance sheets as current liabilities, except for the workers’ compensation reserve.

Off-Balance Sheet Arrangements

We had letters of credit totaling \$2.8 million outstanding on December 31, 2022, which were collateralized with deposits totaling \$2.9 million, or 103% of the total letters of credit.

Critical Accounting Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We regularly evaluate our estimates and assumptions related to the fair value of assets and liabilities, including intangible assets acquired and allocation of purchase price, useful lives, carrying value and recoverability of long-lived and intangible assets, the recoverability of goodwill, and revenue recognition. Certain accounting policies, as described below, are considered “critical accounting policies” because they are particularly dependent on estimates made by us about matters that are inherently uncertain and could have a material impact on our consolidated financial statements. We base our estimates and assumptions on current facts, historical experience, and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected. A summary of all of our significant accounting policies is included in “Note 2. Summary of Significant Accounting Policies” in [Part III – Quarterly Financial Statements \(Unaudited\)](#).

We believe the following are critical accounting policies that require us to make significant estimates, assumptions, or judgments:

- Valuation and allocation of assets acquired and liabilities assumed in connection with business acquisitions;
- Impairment of identified intangible assets and goodwill; and
- Revenue recognition.

Business Acquisitions

Accounting for acquisitions requires our management to estimate the fair value of the assets acquired and liabilities assumed, which involves a number of judgments, assumptions, and estimates that could materially affect the timing or amounts recognized in our financial statements. The items involving the most significant assumptions, estimates, and judgments include determining the fair value of the following:

- Intangible assets, including valuation methodology, estimations of future cash flows, and discount rates, as well as the estimated useful life of the intangible assets;
- Deferred tax assets and liabilities, uncertain tax positions, and tax-related valuation allowances, which are initially estimated as of the acquisition date;
- Inventory; property, plant, and equipment; pre-existing liabilities or legal claims; deferred revenue; and contingent consideration, each as may be applicable; and
- Goodwill, as measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed.

The goodwill and intangible assets acquired in business acquisitions are pushed down to the reporting unit that benefits from the business combination.

We use an independent valuation firm to assist with our valuation, and our assumptions and estimates are based upon comparable market data and information obtained from our management and the management of the acquired companies. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year following the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

Long-Lived Asset Impairments

Identified Intangibles

We make judgments about the recoverability of purchased finite-lived intangible assets whenever events or changes in circumstances indicate that an impairment may exist. Recoverability of finite-lived intangible assets is measured by comparing the carrying amount of the asset to the future undiscounted cash flows that the asset is expected to generate.

The assumptions and estimates used to determine future values, such as expected future net cash flows, and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by internal factors such as changes in our business strategy or external factors such as industry and economic trends.

Goodwill

The application of the goodwill impairment test is considered a critical accounting estimate. We perform an impairment assessment of goodwill annually as of September 30, or more frequently if indicators of potential impairment exist, which includes evaluating qualitative and quantitative factors to assess the likelihood of an impairment of goodwill.

Qualitative factors considered in this assessment include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting units. Additionally, as part of this assessment, we may perform a quantitative analysis to supplement and support the qualitative factors.

Our goodwill impairment test considers both the income method and the market method to estimate fair value. The income method is based on a discounted future cash flow approach that uses the following major assumptions and inputs: revenue, based on assumed market segment growth rates and assumed market segment share, estimated costs, and weighted average cost of capital (“WACC”). WACC was estimated using guideline companies adjusted for a company-specific risk premium. Estimates of market segment growth,

market segment share, and costs are based on historical data, various internal estimates, and a variety of external sources. The same estimates are also used in the Company's business planning and forecasting process. The data is tested for reasonableness of the inputs and outcomes of our discounted cash flow analysis against available comparable market data. Significant judgment is required to estimate the fair value of reporting units which includes estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

The Company did not have any impairment of goodwill during the any accounting period presented in this quarterly report.

Revenue Recognition

We must make subjective estimates as to when our revenue is earned, the impact of pricing adjustments, and the collectability of our accounts receivable.

When upfront fees do not relate directly to the satisfaction or partial satisfaction of a performance obligation, the payments are deemed to be advance payments for future services. In such, instances, the fees are allocated to performance obligations and recognized when or as the performance obligations, typically call center services, are satisfied over the contract term, as defined under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"). If a contract contains termination provisions, and such termination provisions are not substantive, the upfront nonrefundable fees may be fully recognized prior to the expiration of the stated term of the contract.

ITEM 11 – SELECTED UNAUDITED PRO FORMA FINANCIAL INFORMATION.

The Company is providing the following unaudited pro forma financial information to aid the stockholders in the analysis of the financial aspects of the Phoenix Sale and Faneuil Asset Sale (together, the “Sale Transactions”), the Vistio Reorganization and the Ranew’s Acquisition on the Company’s financial information for the fiscal quarter ended December 31, 2021. The following unaudited pro forma financial information for the fiscal quarter ended December 31, 2021 gives effect to the Sale Transactions as if they closed on September 30, 2021, the last day of the fiscal year prior to the pro forma period presented below, and the Vistio Reorganization and Ranew’s Acquisition as if they closed on October 1, 2021, the beginning of the pro forma period presented for Faneuil, Vistio and the Ranew’s Companies.

The pro forma information has been prepared for illustrative purposes only and is not intended to represent or be indicative of the consolidated results of operations that actually would have been achieved had the Sale Transactions, the Vistio Reorganization and the Ranew’s Acquisition been completed prior to, or at the beginning of (as applicable), the pro forma period presented. Further, these unaudited pro forma financial statements are not necessarily indicative of the Company’s future financial position and future results of operations. The pro forma information should be read in conjunction with the historical financial statements of the Company included in its Quarterly Financial Statements. [See Part III – Quarterly Financial Statements \(Unaudited\)](#).

	Quarter Ended December 31, 2021					
	Faneuil	Vistio	Ranews	Corporate	Eliminations	Pro Forma
Revenue	\$ 32,042,610	\$ 796,266	\$ 9,787,417	\$ —	\$ (796,266) (1)	\$ 41,830,027
Costs, expenses, and other:						
Cost of revenue	29,294,482	593,924	6,262,249	—	(796,266) (2)	35,354,389
Selling, general, and administrative expense	11,978,671	437,188	4,881,791	1,586,969	—	18,884,619
Lease impairment	—	—	—	—	—	—
Loss on disposal of assets and other	26,251	—	18,833	—	—	45,084
Total operating costs, expenses, and other, net	41,299,404	1,031,112	11,162,873	1,586,969	(796,266)	54,284,092
Operating (loss) income	(9,256,794)	(234,846)	(1,375,456)	(1,586,969)	—	(12,454,065)
Other (expense) income, net:						
Interest and dividend income and other	—	—	3,368	260,753	—	264,121
Interest expense	(126,012)	—	(41,345)	—	—	(167,357)
Total other income, net	(126,012)	—	(37,977)	260,753	—	96,764
(Loss) income before income taxes	(9,382,806)	(234,846)	(1,413,433)	(1,326,216)	—	(12,357,301)
Provision for income taxes	(471)	—	71,520	(9,643)	—	61,406
Net (loss) income	(9,383,277)	(234,846)	(1,341,913)	(1,335,859)	—	(12,295,895)
Less: Net income attributable to noncontrolling interests	—	—	(268,248)	—	—	(268,248)
Net (loss) income attributable to ALJ	\$ (9,383,277)	\$ (234,846)	\$ (1,073,665)	\$ (1,335,859)	\$ —	\$ (12,027,647)
Loss per share of common stock – basic and diluted						\$ (0.28)
Weighted average shares of common stock outstanding – basic and diluted						42,407,008

(1) - To back out intercompany revenue recorded by Vistio.

(2) - To back out intercompany cost of revenue recorded by Faneuil.

ITEM 12 – RISK FACTORS.

The following risk factors and other information included in this Quarterly 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

Faneuil is subject to uncertainties regarding healthcare reform that could materially and adversely affect that aspect of our business.

Since its adoption into law in 2010, the Affordable Care Act has been challenged before the U.S. Supreme Court, and several bills have been and continue to be introduced in Congress to delay, defund, or repeal implementation of or amend significant provisions of the Affordable Care Act. In addition, there continues to be ongoing litigation over the interpretation and implementation of certain provisions of the law. New tax reform legislation enacted on December 22, 2017 (“Tax Reform Law”) includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the Affordable Care Act on certain individuals who

fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the “individual mandate,” which could lead to fewer enrollments in healthcare exchanges. Further significant changes to, or repeal of, the Affordable Care Act could materially and adversely affect that aspect of Faneuil’s business.

Economic downturns, reductions in government funding and other program-related and contract-related risks 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 its control, including economic conditions, particularly since contracts for major programs are performed over extended periods of time. 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 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, changes in personnel at government authorities, the failure of applicable government authorities to take necessary actions, opposition by third parties to particular programs, any delay in the state government budget process or a state government shutdown could have an unfavorable effect on Faneuil’s business, financial position, results of operations and cash flows.

Faneuil’s profitability is dependent in part on Faneuil’s ability to estimate correctly, obtain adequate pricing, and control its cost structure related to fixed “price per call” contracts.

A significant portion of Faneuil’s revenues are derived from commercial and government contracts awarded through competitive bidding processes. Many of these contracts are extremely complex and require the investment of significant resources in order to prepare accurate bids and pricing based on both current and future conditions, such as the cost of labor, that could impact profitability of such contracts. Our success depends on Faneuil’s ability to (i) accurately estimate the resources and costs that will be required to implement and service any contracts we are awarded, sometimes in advance of the final determination of such contracts’ full scope and design, and (ii) negotiate adequate pricing for call center services that provide a reasonable return to our shareholders based on such estimates. Additionally, in order to attract and retain certain contracts, we are sometimes required to make significant capital and other investments to enable us to perform our services under those contracts, such as facility leases, information technology equipment purchases, labor resources, and costs incurred to develop and implement software. If Faneuil is unable to accurately estimate its costs to provide call center services, obtain adequate pricing, or control costs for fixed “price per call” contracts, it could materially adversely affect our results of operations and financial condition.

Faneuil’s dependence on a small number of customers could adversely affect its business or results of operations.

Faneuil derives a substantial portion of its revenue from a relatively small number of customers. We expect the largest customers of Faneuil to continue to account for a substantial portion of its total revenue for the foreseeable future. Faneuil has long-standing relationships with many of its significant customers. However, because Faneuil customers generally contract for specific projects or programs with a finite duration, Faneuil may lose these customers if funding for their respective programs is discontinued, or if their projects 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 revenue and cash flows. Additionally, many Faneuil customers are government entities, which can unilaterally terminate or modify the existing contracts with Faneuil without cause and penalty to such government entities in many situations. 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.

The recovery of capital investments in Faneuil contracts is subject to risk.

In order to attract and retain large outsourcing contracts, Faneuil may be required to make 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 intangible assets, could be impaired, and Faneuil 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 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 provide services under its contracts. To the extent that Faneuil cannot engage subcontractors or acquire equipment or materials, its performance, according to the terms of the customer contract, 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. Also, 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 of a customer contract for which the services, equipment or materials were needed.

Partnerships entered into by Faneuil as a subcontractor with third parties who are 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 contractors. In these cases, Faneuil is largely dependent on the judgments of the primary contractors in bidding for new projects and negotiating the primary contracts, including establishing the scope of services and service levels to be provided. Furthermore, even if projects are secured, if a 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 profit or cause losses in the performance of the contract. In certain instances, the subcontract agreement includes a “Pay When Paid” provision, which allows the primary contractor to hold back payments to a subcontractor until they are paid by the customer, which has negatively impacted Faneuil cashflow.

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 perform as agreed.

In certain instances, Faneuil or its 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 generally provides input to its 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 contractually defined performance standards, Faneuil may be subject to agreed-upon liquidated damages. To the extent that these events occur, the total costs for such program may exceed original estimates, and cause reduced profits, or in some cases a loss for that program.

Data security and integrity are critically important to our business, and cybersecurity incidents, including cyberattacks, cyber-fraud, breaches of security, unauthorized access to or disclosure of confidential information, business disruption, or the perception that confidential information is not secure, could result in a material loss of business, regulatory enforcement, substantial legal liability and/or significant harm to our reputation.

Our business involves the use, storage, and transmission of information about our clients, their customers, and our employees. While we take reasonable measures to protect the security of and unauthorized access to our systems and the privacy of personal and proprietary information that we access and store, our security controls over our systems may not be adequate to prevent the improper access to or disclosure of this information. Such unauthorized access or disclosure could subject Faneuil to significant liability under relevant law or our contracts and could harm our reputation, resulting in impacts on our results of operations, loss of future revenue and business opportunities. These risks may further increase as our business model includes a high percentage of work from home delivery in addition to our delivery through customer experience centers.

We operate in an environment of significant risk of cybersecurity incidents resulting from unintentional events or deliberate attacks by third parties or insiders, which may involve exploiting highly obscure security vulnerabilities or sophisticated attack methods. These cyberattacks can take many forms, but they typically have one or more of the following objectives, among others:

- obtain unauthorized access to confidential consumer information;
- manipulate or destroy data; or
- disrupt, sabotage or degrade service on our systems.

In recent years, there have been an increasing number of high-profile security breaches at companies and government agencies, and security experts have warned about the growing risks of hackers, cybercriminals and state actors launching a broad range of attacks targeting information technology systems. Information security breaches, computer viruses, interruption or loss of business data, DDoS (distributed denial of service) attacks, ransomware and other cyberattacks on any of these systems could disrupt our normal operations of customer engagement centers and remote service delivery, our cloud platform offerings, and our enterprise services, impeding our ability to provide critical services to our clients. For example, on August 18, 2021, we detected a ransomware attack (the

“Security Event”) that accessed and encrypted certain files on certain servers utilized by us in the provision of our call center services. Although we quickly and actively managed the Security Event, such event caused disruption to parts of our business, including certain aspects of our provision of call center services. Although we actively communicated with customers and worked to minimize disruption, we cannot guarantee that customer relationships were not harmed as a result of the Security Event.

We are experiencing an increase in frequency of cyber-fraud attempts, such as so-called “social engineering” attacks and phishing scams, which typically seek unauthorized money transfers or information disclosure. We actively train our employees to recognize these attacks and have implemented proactive risk mitigation measures to identify and to attempt to prevent these attacks. There are no assurances, however, that these attacks, which are growing in sophistication, may not deceive our employees, resulting in a material loss.

While we have taken reasonable measures to protect our systems and processes from unauthorized intrusions and cyber-fraud, we cannot be certain that advances in cyber-criminal capabilities, discovery of new system vulnerabilities, and attempts to exploit such vulnerabilities will not compromise or breach the technology protecting our systems and the information that we manage and control, which could result in damage to our systems, our business, our reputation, and our profitability.

We cannot assure you that our systems, databases and services will not be compromised or disrupted in the future, whether as a result of deliberate attacks by malicious actors, breaches due to employee error or malfeasance, or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, telecommunication or utility failures or natural disasters or other catastrophic events. We work to monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact.

The preventive actions we take to address cybersecurity risk, including protection of our systems and networks, may be insufficient to repel or mitigate the effects of cyberattacks in the future as it may not always be possible to anticipate, detect or recognize threats to our systems, or to implement effective preventive measures against all cybersecurity risks. This is because, among other things:

- the techniques used in cyberattacks change frequently and may not be recognized until after the attacks have succeeded;
- cyberattacks can originate from a wide variety of sources, including sophisticated threat actors involved in organized crime, sponsored by nation-states, or linked to terrorist or hacktivist organizations; and
- third parties may seek to gain access to our systems either directly or using equipment or security passwords belonging to employees, customers, third-party service providers or other users.

Unauthorized disclosure, loss or corruption of our data or inability of our clients and their customers to access our systems could disrupt our operations, subject us to substantial regulatory and legal proceedings and potential liability, result in a material loss of business and/or significantly harm our reputation.

We may not be able to immediately address the consequences of a cybersecurity incident because a successful breach of our computer systems, software, networks or other technology assets could occur and persist for an extended period of time before being detected due to, among other things:

- the breadth and complexity of our operations;
- the large number of clients, counterparties and third-party service providers with which we do business;
- the proliferation and increasing sophistication of cyberattacks;
- the possibility that a malicious third party compromises the software, hardware or services that we procure from a service provider unbeknownst to both the provider and to the Company; and
- the possibility that a third party, after establishing a foothold on an internal network without being detected, might obtain access to other networks and systems.

The extent of a particular cybersecurity incident and the steps that we may need to take to investigate it may not be immediately clear, and it may take a significant amount of time before such an investigation can be completed and full and reliable information about the incident is known. While such an investigation is ongoing, we may not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, any or all of which could further increase the costs and consequences of a cybersecurity incident.

Due to concerns about data security and integrity, a growing number of legislative and regulatory bodies have adopted consumer notification and other requirements in the event that consumer information is accessed by unauthorized persons and additional

regulations regarding the use, access, accuracy and security of such data are possible. In the United States, we are subject to federal and state laws that provide for disparate notification regimes. In the event of unauthorized access, our failure to comply with the complexities of these various regulations could subject us to regulatory scrutiny and additional liability.

If our cloud platforms and third-party software and systems experience disruptions due to technology failures or cyberattacks and if we fail to correct such impacts promptly, our business will be materially impacted.

Our cloud platforms and third-party software and systems that we use to serve our clients are complex and may, from time to time have service interruptions, contain design defects, configuration or coding errors, and other vulnerabilities that may be difficult to detect or correct, and which may be outside of our control. We may not have sufficient redundant operations to cover a loss or failure of our systems in a timely manner. Any significant interruption could severely harm our business and reputation and result in a loss of revenue and clients. Although our commercial agreements limit our exposure from such occurrences, they may not always effectively protect us against claims in all jurisdictions and against third-party claims. If our clients' business is damaged, our reputation could suffer, we could be subject to contract termination and payments for damages, adversely affecting our business, our reputation, our results of operations and financial condition.

If we fail to maintain and improve our systems, demand for our services could be adversely affected.

In our markets, there are continuous improvements in computer hardware, network operating systems and technologies. These improvements, as well as changes in client preferences or regulatory requirements, may require changes in the technology used to gather and process our data and deliver our services. Our future success will depend, in part, upon our ability to:

- internally develop and implement new and competitive technologies;
- use leading third-party technologies effectively;
- respond to changing client needs and regulatory requirements; and
- transition client and their customer data and data sources successfully to new interfaces or other technologies.

We cannot provide assurance that we will successfully implement new technologies, cause our cloud platforms and third-party software and systems providers to implement compatible technologies or adapt our technology to evolving customer, regulatory and competitive requirements. If we fail to respond or fail to cause our cloud platforms and third-party software and systems providers to respond, to changes in technology, regulatory requirements or client preferences, the demand for our services, the delivery of our services or our market reputation could be adversely affected. Additionally, our failure to implement important updates could affect our ability to successfully meet the timeline for us to generate cost savings resulting from our investments in improved technology. Failure to achieve any of these objectives would impede our ability to deliver strong financial results.

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, healthcare 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 contact center services is subject to HIPAA, which protects the privacy of patients' data. These laws, regulations, and agreements require Faneuil to develop and implement policies to protect non-public personal information and to disclose these policies to consumers before a customer relationship is established and periodically after that. These laws, regulations, and agreements limit the ability to use or disclose non-public personal information for purposes other than the ones originally intended. Many of these regulations, including those related to data privacy, are frequently changing and sometimes conflict with existing ones 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 placed on Faneuil operations. 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 operating costs consists 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.

Matters relating to employment and labor laws and prevailing wage standards may adversely affect our business.

The industries in which Faneuil competes is labor intensive and governed by various federal and state labor laws with respect to its relationship with its employees. Faneuil's ability to meet its labor needs on a cost-effective basis is subject to numerous external factors, including the availability of qualified personnel in the workforce in the local markets in which it operates, unemployment levels within those markets, prevailing wage rates, health and other insurance costs and changes in employment and labor laws. Such laws related to employee hours, wages, job classification and benefits could significantly increase Faneuil's operating costs. Faneuil is also subject to employee claims against it based on such laws and other actions or inactions of its employees. Some or all of these claims may give rise to litigation, including class action litigation under the Fair Labor Standards Act and state wage and hour lawsuits. Such class action lawsuits are typically brought by specialized plaintiff law firms who often seek large settlements based entirely on the number of potential plaintiffs in a class, whether or not there is any basis for the claims that they make on behalf of their clients, most of whom do not believe themselves to be aggrieved nor seek recourse until solicited. Due to the inherent uncertainties of litigation, Faneuil may not be able to accurately determine the impact on it of any future adverse outcome of such proceedings. The ultimate resolution of these matters could have a material adverse impact on Faneuil's financial condition, results of operations, and liquidity. In addition, regardless of the outcome, these proceedings could result in substantial cost to Faneuil and may require Faneuil to devote substantial resources to defend itself.

Additionally, in the event prevailing wage rates increase in the local markets in which Faneuil operates, Faneuil may be required to concurrently increase the wages paid to its employees to maintain the quality of its workforce and customer service. To the extent such increases are not covered by our customers, Faneuil's profit margins may decrease as a result. If Faneuil is unable to hire and retain employees capable of meeting its business needs and expectations, its business and brand image may be impaired. Any failure to meet Faneuil's staffing needs or any material increase in turnover rates of its employees may adversely affect its business, results of operations and financial condition.

Further, Faneuil relies on the ability to attract and retain labor on a cost-effective basis. The availability of labor in the local markets in which Faneuil operates has declined in recent years and competition for such labor has increased, especially under the economic crises experienced throughout the COVID-19 pandemic. Faneuil's ability to attract and retain a sufficient workforce on a cost-effective basis depends on several factors discussed above, including the ability to protect staff during the COVID-19 pandemic. Faneuil may not be able to attract and retain a sufficient workforce on a cost-effective basis in the future. In the event of increased costs of attracting and retaining a workforce, Faneuil's profit margins may decline as a result.

The industries in which Faneuil operates are highly competitive, which could decrease demand for Faneuil's products or force Faneuil to lower its prices, which could have a material adverse effect on Faneuil's business and our financial results.

Faneuil primarily competes based on quality, performance, innovation, technology, price, applications expertise, system and service flexibility, and established customer service capabilities, as its services relate to customer contact centers, and employee staffing. Faneuil may not be able to compete effectively on all these fronts or with all of its competitors.

Competitive pressures or the inability by Faneuil to adapt effectively and quickly to a changing competitive landscape could affect prices, margins or demand for products and services. If Faneuil is unable to respond timely and appropriately to these competitive pressures, from existing or new competitors, its business, market share and financial performance could be adversely affected.

Risks Related to Ranew's Companies

Price increases, business and supply chain interruptions, declines in the supply of raw materials or disruptions to our key partnership arrangements could have a significant impact on our ability to grow or sustain earnings.

Ranew's Companies' fabrication and coating processes consume significant amounts of raw materials, the costs of which are subject to change based on fluctuations in worldwide supply and demand as well as other factors beyond our control, including inflationary pressures like those in recent years. In rising raw material price environments, we may be unable to pass along these increased costs to our customers. In declining raw material price environments, customers may seek price concessions from us greater than any raw material cost savings we realize. If we are not able to fully offset the effects of higher raw materials costs, or if customers demand greater raw material price concessions than we obtain in low raw material cost environments, our financial results could deteriorate.

Additionally, we obtain certain of our raw materials from selected key suppliers. If any sole source supplier of raw materials ceases supplying raw materials to us, or if any of our key suppliers is unable to meet its obligations in a timely fashion or at an acceptable price, or at all, we may be forced to incur higher costs to obtain the necessary raw materials elsewhere or, in limited instances, we may not be able to obtain the necessary raw materials. Additionally, in certain instances, we rely on third parties to manufacture certain of our intermediates and products used in providing our services. If any of our key partners cease to provide services to us, either

permanently or temporarily, we would be required to procure alternative arrangements, which we may not be able to arrange on a timely basis or at all.

In addition to the risks associated with raw materials prices, supplier capacity constraints, supplier production disruptions, including supply disruptions from our sole source or other key suppliers, supply chain and logistics congestion and disruptions, increasing costs for energy, the unavailability of certain raw materials or disruptions to our key partnership arrangements could result in harm to our fabrication, coating and assembly capabilities or supply imbalances that may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our ability to understand our customers' specific preferences and requirements, and to innovate, develop, produce and market services that meet customer demand is critical to our business results.

Ranew's Companies' business relies on continued demand for our fabrication, coating and assembly services. To achieve our business goals, we must develop and sell fabrication, coating and assembly services that appeal to customers. This is dependent on a number of factors, including our ability to provide services that meet the quality, performance and price expectations of our customers and our ability to develop effective sales, advertising and marketing programs.

Our future growth will depend on our ability to continue to innovate our existing services and to develop and introduce new services. If we fail to keep pace with innovation on a competitive basis or to predict market demands for our services, our businesses, financial condition and results of operations could be adversely affected.

Our operations are subject to risks inherent in businesses working with refined chemicals, and we could be subject to liabilities for which we are not fully insured or that are not otherwise mitigated.

Ranew's Companies maintain property, business interruption, product, general liability, casualty and other types of insurance that we believe are appropriate for our business and operations as well as in line with industry practices. However, we are not fully insured against all potential hazards incident to our business, including losses resulting from natural disasters or climate-related exposures, wars or terrorist acts. Changes in insurance market conditions have caused, and may in the future cause, premiums and deductibles for certain insurance policies to increase substantially and, in some instances, for certain insurance to become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we were not fully insured, we might not be able to finance the amount of the uninsured liability on terms acceptable to us or at all, and might be obligated to divert a significant portion of our cash flow from normal business operations.

Our business, including our results of operations and reputation, could be adversely affected by safety or product liability issues.

Failure to appropriately manage safety, human health, product liability and environmental risks associated with our fabrication, coating and assembly services and processes could adversely impact employees, communities, stakeholders, our reputation and our results of operations. Public perception of the risks associated with our services could impact our brand acceptance and influence the regulatory environment in which we operate. While we have procedures and controls to manage safety risks, issues could be created by events outside of our control, including natural disasters, severe weather events and acts of sabotage.

Hazardous incidents if they do result or are perceived to result from use of our services, may harm our reputation, threaten our relationships and/or lead to customer attrition and financial losses. Our policy of covering these risks through contractual limitations of liability and indemnities and through insurance may not always be effective. As a result, our financial condition and results of operation would be adversely affected, and other companies with competing services may have the opportunity to secure a competitive advantage.

Interruptions of operations at our facilities may result in increased liabilities or lower operating results.

Ranew's Companies own and operate large-scale facilities. Our operating results are dependent on the continued operation of our various facilities and the ability to complete projects on schedule. Interruptions at our facilities may materially reduce the productivity and profitability of a particular fabrication, coating or assembly facility, or our business as a whole, during and after the period of such operational difficulties.

Although we take precautions to enhance the safety of our operations and minimize the risk of disruptions, our operations are subject to hazards inherent in fabrication, coating and assembly businesses and the related storage and transportation of raw materials, products and wastes. These potential hazards include:

- pipeline leaks and ruptures;
- explosions;
- fires;
- severe weather and natural disasters;
- mechanical failure;
- unscheduled downtimes;
- supplier disruptions;
- labor shortages or other labor difficulties;
- transportation interruptions;
- remediation complications;
- chemical and oil spills;
- discharges or releases of toxic or hazardous substances or gases;
- storage tank leaks;
- other environmental risks; and
- cyber attack or other terrorist acts.

Some of these hazards may cause severe damage to or destruction of property and equipment or personal injury and loss of life and may result in suspension of operations or the shutdown of affected facilities.

Rising inflation could reduce the demand for our services as well as decrease our profit on our existing contracts, with respect to our fixed-price contracts.

Recently, there have been market indicators of a pronounced rise in inflation and the Federal Reserve has raised certain benchmark interest rates in an effort to combat inflation. Inflation generally increases the cost of goods and services Ranew's Companies will use in our business operations, such as raw materials, electricity and other utilities, and wages to retain our employees, which increase our expenses. In addition, we bear all of the risk of rising inflation and wages with respect to those contracts that are fixed-price. If we continue to experience inflationary pressures, inflation may have a larger impact on our results of operations in the future, particularly if we fail to re-negotiate our fixed-price contracts or expand our business into markets and geographic areas where fixed-price work is more prevalent. Furthermore, our customers will also be affected by inflation and the rising costs of goods and services used in their businesses, which could have a negative impact on their ability to use our services and afford to pay our fees. Therefore, increases in inflation could have a material adverse impact on our business, financial condition and results of operations.

We are subject to stringent environmental laws and regulations that impose significant compliance costs, and we cannot predict with certainty the extent of future costs under environmental, health and safety and other laws and regulations.

Ranew's Companies may face liability arising out of the normal course of business, including alleged personal injury or property damage due to exposure to chemicals or other hazardous substances at our current or former facilities or chemicals used in our fabrication, coating and assembly processes. In addition, because our services are components of a variety of other end-use products, we, along with other members of the fabrication, coating and assembly industries, may be subject to potential claims related to those end-use products. Any substantial increase in the success of these types of claims could negatively affect our operating results.

Our facilities, operations and services are subject to increasingly stringent environmental laws and regulations, including laws and regulations governing emissions to noise, air, releases to soil and discharges to water and the generation, handling, storage, transportation, treatment and disposal of non-hazardous and hazardous waste materials. Some environmental laws impose strict, retroactive and joint and several liability for the remediation of the release of hazardous substances, even for conduct that was lawful at the time it occurred, or for the conduct of, or conditions caused by, prior operators, predecessors or other third parties. Many of these laws and regulations provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations. In addition, some of these laws and regulations require us to meet

specific financial responsibility requirements. Any substantial liability for environmental damage could have a material adverse effect on our financial condition, results of operations and cash flows.

Although we have compliance programs and other processes intended to ensure compliance with all such regulations, we are subject to the risk that our compliance with such regulations could be challenged. Failure to comply with environmental laws could expose us to penalties or clean-up costs, civil or criminal liability and sanctions on certain of our activities, as well as damage to property or natural resources. The potential liabilities, sanctions, damages and remediation efforts related to any non-compliance with such laws and regulations could negatively impact our ability to conduct our operations and our financial condition and results of operations.

Furthermore, environmental laws and regulations may change from time to time, as may related interpretations and other guidance. Changes in environmental laws or regulations could result in higher expenses and payments. Uncertainty relating to environmental laws or regulations may also affect how we conduct our operations and structure our investments and could limit our ability to enforce our rights. Changes in environmental and climate change laws or regulations, including laws relating to greenhouse gas emissions, could increase environmental compliance expenditures. Changes in climate change concerns, or in the regulation of such concerns, including greenhouse gas emissions, could subject us to additional costs and restrictions, including increased energy, raw materials and waste management costs. If environmental laws or regulations are either changed or adopted and impose significant operational restrictions and compliance requirements upon us or our services, they could negatively impact our reputation, business, capital expenditures, results of operations, financial condition and competitive position.

Our industry is subject to extensive government regulation, and existing, or future regulations may restrict our operations, increase our costs of operations or require us to make additional capital expenditures. Compliance with regulatory requirements will result in higher operating costs, such as regulatory requirements relating to emissions, the security of our facilities, and the transportation, export or registration of our services. We generally expect that regulatory controls will become increasingly more demanding but cannot accurately predict future developments.

Increasingly strict environmental laws and inspection and enforcement policies could affect the handling, manufacture, use, emission or disposal of wastes, other materials or hazardous and non-hazardous waste. Stricter environmental, safety and health laws, regulations and enforcement policies could result in increased operating costs or capital expenditures to comply with such laws and regulations. Additionally, we are required to have permits for our businesses and are subject to licensing regulations. These permits and licenses are subject to renewal, modification and in some circumstances, revocation. Further, the permits and licenses are often difficult, time consuming and costly to obtain and could contain conditions that limit our operations.

We operate in a highly competitive environment, which could adversely affect our sales and pricing.

Ranew's Companies operate in a highly competitive environment. We compete on the basis of a variety of factors, including performance, customer service, quality and price. There can be no assurance that our services will be able to compete successfully with other companies' services. Thus, our share of industry sales could be reduced due to aggressive pricing or strategies pursued by competitors, unanticipated difficulties, our failure to price our services competitively or our failure to provide our services at a competitive cost. In addition, if we cannot maintain the quality and competitive pricing of our services, customers may decide to build or expand their in-house capabilities to fulfill the services we provide.

Lack of customer acceptance of price increases we announce from time to time, changes in customer requirements for price discounts, changes in our customers' behavior or a weak pricing environment could have an adverse impact on our business, results of operations and financial condition.

Disputes with employees or other labor matters could adversely affect our operations and financial results.

There can be no assurance that any current or future issues with our employees will be resolved or that we will not encounter future work stoppages or other disputes with our employees. A work stoppage or other limitations on production at our facilities for any reason could have an adverse effect on our business, results of operations and financial condition. Any strikes or work stoppages experienced by our customers or suppliers could have an adverse effect on our business, results of operations and financial condition.

Our services may experience quality problems from time to time that can result in decreased sales and operating margin, product liability, warranty or other claims that could result in significant expenses and harm to our reputation.

Ranew's Companies provide fabrication, coating and assembly services to various industrial products, which could result in undetected fabrication, coating or assembly defects or errors that, despite inspection and testing, are not discovered until after the product has been

delivered and used by customers. Defects may also occur in components and products we purchase from third parties. There can be no assurance we will be able to detect and fix all defects from our fabrication, coating and assembly services. Failure to do so could result in lost revenue, product liability, claims from customers, end-users or others, and significant warranty claims and other expenses to correct the defects, diversion of management time and attention and harm to our reputation.

Risks Related to the Company Generally

A widespread health crisis, such as the COVID-19 pandemic, may adversely affect our business, results of operations and financial condition.

A widespread health crisis, including the COVID-19 pandemic, and related governmental responses may adversely affect our business, results of operations and financial condition. These effects could include disruptions to our workforce due to illness or “shelter-in-place” restrictions, temporary closures of our facilities, the interruption of our supply chains and distribution channels, and similar effects on our customers or suppliers that may impact their ability to perform under their contracts with us or cause them to curtail their business with us. In addition, we have taken and will continue to take temporary precautionary measures intended to help minimize the risk of COVID-19 to our employees, including requiring certain employees to work remotely and suspending non-essential travel and in-person meetings, which could negatively affect our business. Further, COVID-19 has and is expected to continue to adversely affect the economies and financial markets of many countries and most areas of the United States, which may affect demand for our products and services and our ability to obtain additional financing for our business. Further impacts specific to our subsidiaries’ businesses may include:

- Prolonged interruption of Faneuil’s physical customer contact centers due to illness or stay-at-home regulations and costs related to transitioning to work from home arrangements;
- Disruption of production facilities due to illness or stay-at-home regulations; and
- Similar impacts that negatively affect significant customer or suppliers.

Any of these events could materially and adversely affect our business and our financial results. To the extent that the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section, such as those relating to our high level of indebtedness, our need to generate sufficient cash flows to service our indebtedness and our ability to comply with the covenants contained in our credit agreement.

The extent to which COVID-19 will impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be predicted with certainty. Such developments may include the ongoing spread of the virus, the vaccination rates against the virus, the emergence of new variants of the virus, the severity of the disease, the duration of the outbreak and the type and duration of actions that may be taken by various governmental authorities in response to the outbreak and the impact on the economy. As a result, at the time of this filing, it is not possible to predict the overall impact of COVID-19 on our business, liquidity, and financial results.

We are no longer listed on the Nasdaq and, as such, will no longer be required to provide current and quarterly reports under the SEC. The Company will continue to be quoted on OTC Markets and intends to provide unaudited financial reporting of the company on a regular basis. However, the Company makes no guarantee that it will continue to provide current reports or maintain its listing on the OTC Markets.

We are no longer listed on the Nasdaq which could have adverse results, including, but not limited to, a decrease in the liquidity and market price of our common stock, loss of confidence by our employees and investors, loss of business opportunities, and limitations in potential financing options.

We have in the past, and may in the future, incur indebtedness that could adversely affect our financial flexibility and expose us to risks that could materially adversely affect our liquidity and financial condition.

As of April 13, 2022, after giving effect to the application of the net proceeds of the Phoenix Sale and the termination of the Amended PNC Revolver, we have no outstanding indebtedness other than certain convertible promissory notes outstanding. We may incur additional indebtedness in the future, which could have significant effects on our business, including:

- limiting our ability to borrow additional amounts to fund capital expenditures, acquisitions, debt service requirements, execution of our growth strategy and other purposes;
- limiting our ability to make investments, including acquisitions, loans and advances, and to sell, transfer or otherwise dispose of assets;

- requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on our borrowings, which would reduce availability of our cash flow to fund working capital, capital expenditures, acquisitions, execution of our growth strategy and other general corporate purposes;
- increasing our vulnerability to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our ability to plan for and react to changing conditions;
- placing us at a competitive disadvantage compared with our competitors that have less debt; and
- exposing us to risks inherent in interest rate fluctuations if our future borrowings are at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

In addition, we may not be able to generate sufficient cash flow from our operations to repay our future indebtedness when it becomes due and to meet our other cash needs. If we are not able to pay our borrowings under future indebtedness as they become due, we will be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional debt or equity securities. We may not be able to refinance our future debt or sell additional debt or equity securities or our assets on favorable terms, if at all, and if we must sell our assets, it may negatively affect our business, financial condition and results of operations. In addition, we may be subject to prepayment penalties depending on when we repay our future indebtedness, which amounts could be material.

The industries in which our subsidiaries operate are highly competitive, which could decrease demand for our subsidiaries' products or force them to lower their prices, which could have a material adverse effect on their business and our financial results.

Faneuil primarily competes based on quality, performance, innovation, technology, price, applications expertise, system and service flexibility, and established customer service capabilities, as its services relate to toll collection, customer contact centers, and employee staffing. Faneuil may not be able to compete effectively on all these fronts or with all of its competitors.

Competitive pressures or the inability by our subsidiaries to adapt effectively and quickly to a changing competitive landscape could affect prices, margins or demand for products and services. If our subsidiaries are unable to respond timely and appropriately to these competitive pressures, from existing or new competitors, their business, market share and financial performance could be adversely affected.

A failure to attract and retain necessary personnel, skilled management, and qualified subcontractors may have an adverse impact on the business of our subsidiaries.

Because each of our subsidiaries operates in intensely competitive markets, its success depends to a significant extent upon each subsidiary's ability to attract, retain and motivate highly skilled and qualified personnel and to subcontract with qualified, competent subcontractors. If our subsidiaries fail to attract, develop, motivate, retain, and effectively utilize personnel with the desired levels of training or experience, or, as applicable, are unable to contract with qualified, competent subcontractors, their business will be harmed. Experienced and capable personnel remain in high demand, and there is continual competition for their talents. Quality service depends on the ability to retain employees and control personnel turnover, as any increase in the employee turnover rate could increase recruiting and training costs and could decrease operating effectiveness and productivity. Additionally, our subsidiaries' businesses are driven in part by the personal relationships, skills, experience and performance of each subsidiary's senior management team. Despite executing employment agreements with members of each subsidiary's senior management team, such members may discontinue service with our subsidiaries and we may not be able to find individuals to replace them at the same cost, or at all. The loss or interruption of the services of any key employee or the loss of a key subcontractor relationship could hurt our business, financial condition, cash flow, results of operations and prospects.

If we are unable to retain key members of our management team or attract, integrate and retain additional executives and other skilled personnel we need to support our operations and growth, we may be unable to achieve our goals and our business will suffer.

Our future success depends on our ability to continue to attract, train, integrate and retain highly skilled employees, particularly those on our management team, including Jess Ravich, our Chief Executive Officer and Jeffrey Wiens, our Chief Financial Officer, whose services are essential to the execution of our corporate strategy and ensuring the continued operations and integrity of financial reporting within our company. Our executive officers and other key employees are generally employed on an at-will basis, which means that such personnel could terminate their relationship with us at any time. The loss of any member of our senior management

team could significantly delay or prevent us from achieving our business and/or development objectives and could materially harm our business.

Some of our officers may have outside business interests, which could impair our ability to implement our business strategies and lead to potential conflicts of interest.

Some of our officers, in the course of their other business activities, may become aware of investments, business or other information which may be appropriate for presentation to us as well as to other entities to which they owe a fiduciary duty. They may also in the future become affiliated with entities that are engaged in business or other activities similar to those we intend to conduct. As a result, they may have conflicts of interest in determining to which entity particular opportunities or information should be presented. If, as a result of such conflict, we are deprived of investments, business or information, the execution of our business plan and our ability to effectively compete in the marketplace may be adversely affected.

We may not be able to consummate additional acquisitions and dispositions on acceptable terms or at all. Furthermore, we and our subsidiaries may not be able to integrate acquisitions successfully and achieve anticipated synergies, or the acquisitions and dispositions we and our subsidiaries pursue could disrupt our business and harm our financial condition and operating results.

As part of our business strategy, we intend to continue to pursue acquisitions and dispositions. Acquisitions and dispositions could involve a number of risks and present financial, managerial and operational challenges, including:

- adverse developments with respect to our results of operations as a result of an acquisition which may require us to incur charges and/or substantial debt or liabilities;
- disruption of our ongoing business and diversion of resources and management attention from existing businesses and strategic matters;
- difficulty with assimilation and integration of operations, technologies, products, personnel or financial or other systems;
- increased expenses, including compensation expenses resulting from newly hired employees and/or workforce integration and restructuring;
- disruption of relationships with current and new personnel, customers, and suppliers;
- integration challenges related to implementing or improving internal controls, procedures and/or policies at a business that prior to the acquisition lacked the same level of controls, procedures and/or policies;
- assumption of certain known and unknown liabilities of the acquired business;
- regulatory challenges or resulting delays; and
- potential disputes (including with respect to indemnification claims) with the buyers of disposed businesses or with the sellers of acquired businesses, technologies, services, or products.

We may not be able to consummate acquisitions or dispositions on favorable terms or at all. Our ability to consummate acquisitions will be limited by our ability to identify appropriate acquisition candidates, to negotiate acceptable terms for purchase and our access to financial resources, including available cash and borrowing capacity. In addition, we could experience financial or other setbacks if we are unable to realize, or are delayed in realizing, the anticipated benefits resulting from an acquisition, if we incur greater than expected costs in achieving the anticipated benefits or if any business that we acquire or invest in encounters problems or liabilities which we were not aware of or were more extensive than believed.

The concentration of our capital stock ownership with insiders will likely limit your ability to influence corporate matters.

Our executive officers and directors and their affiliated entities, including Jess Ravich, our current Chief Executive Officer, together beneficially own more than 50% of our outstanding common stock. As a result, these stockholders, if they act together or in a block, could have significant influence over most matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions, even if other stockholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

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

We do not currently anticipate paying 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.

Changes in U.S. tax laws could have a material adverse effect on our business, cash flow, results of operations or financial conditions

On December 22, 2017, then President Trump signed into law the final version of the Tax Reform Law. The Tax Reform Law significantly reforms the Internal Revenue Code of 1986, as amended, with many of its provisions effective for tax years beginning on or after January 1, 2018. The Tax Reform Law, among other things, contains significant changes to corporate taxation, including a permanent reduction of the corporate income tax rate, a partial limitation on the deductibility of business interest expense, a limitation of the deduction for NOL carryforwards, an indefinite NOL carryforward, and the elimination of the two-year NOL carryback, temporary, immediate expensing for certain new investments and the modification or repeal of many business deductions and credits. We continue to examine the impact this tax reform legislation may have on our business. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the Tax Reform Law is uncertain and our business and financial condition could be adversely affected. The impact of this reform on our stockholders is uncertain. Stockholders should consult with their tax advisors regarding the effect of the Tax Reform Law and other potential changes to the U.S. Federal tax laws on them.

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;
- relatively low trading volumes;
- announcements by our competitors of significant acquisitions; and
- the occurrence of various risks described in these Risk Factors.

Also, the stock market has experienced extreme price and volume fluctuations recently. This volatility has had a significant impact on the market prices of securities issued by many companies for reasons unrelated to their operating performance. Other factors including inflation, the ongoing COVID-19 pandemic and Russia's invasion of Ukraine all contribute to market volatility. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

We are subject to claims arising in the ordinary course of our business that could be time-consuming, result in costly litigation and settlements or judgments, require significant amounts of management attention and result in the diversion of significant operational resources, which could adversely affect our business, financial condition, and results of operations.

We and our subsidiaries are currently involved in, and from time to time may become involved in, legal proceedings or be subject to claims arising in the ordinary course of our business. Litigation is inherently unpredictable, time-consuming and distracting to our management team, and the expenses of conducting litigation are not inconsequential. Such distraction and expense may adversely affect the execution of our business plan and our ability to compete effectively in the marketplace. Further, if we do not prevail in litigation in which we may be involved, our results could be adversely affected, in some cases, materially.

Any business disruptions due to political instability, armed hostilities, acts of terrorism, natural disasters or other unforeseen events could adversely affect our financial performance.

If terrorist activities, armed conflicts (including Russia's invasion of Ukraine), political instability, or natural disasters, including climate change related events, such events may negatively affect our operations, cause general economic conditions to deteriorate or cause demand for our services to decline. A prolonged economic slowdown or recession could reduce the demand for our services, and consequently, negatively affect our future sales and profits. Any disruption of operations due to unforeseen events at any of our principal facilities could adversely affect our business, results of operations, cash flows, and financial condition.

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

We and each of our subsidiaries provide services that 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 releases of sensitive information have occurred recently at several 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 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. Also, damage to our reputation stemming from such breaches could adversely affect our prospects. As the regulatory environment relating to companies' obligations 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.

Your share ownership may be diluted by the issuance of additional shares of our common or preferred stock in the future.

Your share ownership may be diluted by the issuance of additional shares of our common or preferred stock or securities convertible into common or preferred stock in the future. As of December 31, 2022, a total of 410,000 shares of our common stock are issuable pursuant to outstanding options issued by us at a weighted-average exercise price of \$1.94, and 1,610,538 shares of our common stock are issuable pursuant to outstanding warrants at a weighted-average exercise price of \$0.56. As of December 31, 2022, ALJ had debt that was convertible into 11,158,357 shares of common stock at the discretion of the debt holder. It is probable that options or warrants to purchase our common stock, or debt that is convertible into common stock, will be exercised during their respective terms if the fair market value of our common stock exceeds the exercise price of the particular option or warrant. If the stock options or warrants are exercised, your share ownership will be diluted. Additionally, options to purchase up to 1,575,000 shares of ALJ common stock are available for grant under our existing equity compensation plans as of December 31, 2022.

In addition, our Board of Directors may determine from time to time that we need to raise additional capital by issuing additional shares of our common stock or other securities. We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common or preferred stock. The issuance of any additional shares of common stock or preferred stock or securities convertible into, exchangeable for or that represent the right to receive common or preferred stock, or the exercise of such securities could be substantially dilutive to shareholders of our common stock. New investors also may have rights, preferences, and privileges that are senior to, and that adversely affect, our then current shareholders. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series. The market price of our common stock could decline as a result of sales of shares of our common stock made after this offering or the perception that such sales could occur. We cannot predict or estimate the amount, timing, or nature of our future offerings. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings.

We recently conducted a tender offer and may do so again in the future, which may subject the holders of our common stock to risks associated with a decrease in the outstanding number of shares of our common stock.

On December 1, 2022 we launched a tender offer and published an Offer to Purchase up to 10,000,000 shares of our common stock at a purchase price not to be less than \$1.84 and not to be greater than \$2.00. The tender offer expired on December 29, 2022. Pursuant to the tender offer, we repurchased 10,236,945 shares of our common stock at \$1.99 per share. While we have no plans to conduct another tender offer at this time, we may conduct another tender offer or engage in the repurchase of our shares in the future. Stockholders could be adversely affected by a reduction in our "public float," that is, the number of shares owned by outside stockholders. Although the Company is not currently pursuing a tender offer or repurchase program, the launch of any such program in the future could have a negative effect on our share price.

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

We delisted our common stock from the NASDAQ Stock Market on September 12, 2022. Although we may apply again to list our common stock on NASDAQ, the New York Stock Exchange or some other securities exchange in the future, we currently have no plans to do so. We also cannot assure you that we will be able to meet the initial listing standards, including the minimum per share price and minimum capitalization requirements, or that we will be able to maintain a listing of our common stock on either of those or any other trading venue. Until such time as we qualify for listing on NASDAQ, the New York Stock Exchange or another major exchange, an investor may have difficulty in disposing our common stock or obtaining accurate quotations as to the market value of

our common stock. Although we currently intend to continue to provide information to our stockholders and to take such actions within our control to enable our common stock to be quoted on the Pink Sheets, there is no guarantee that a broker-dealer will continue to make a market in our common stock and that trading of our common stock will continue on the Pink Sheets. In addition, rules promulgated by the SEC impose various practice requirements on broker-dealers who sell securities that fail to meet certain criteria set forth in those rules to persons other than established customers and accredited investors. Consequently, these rules may deter broker-dealers from recommending or selling our common stock, which may further affect the liquidity of our common stock. It would also make it more difficult for us to raise additional capital.

The Company could be adversely affected if it or any of its subsidiaries are required to register as an investment company under the Investment Company Act of 1940 as amended (the “1940 Act”).

The Company conducts its operations so that neither it nor its subsidiaries are required to register as an investment company under the 1940 Act. We believe we are not an investment company because we do not engage primarily, or hold ourselves out as being engaged primarily, and do not propose to engage primarily, in the business of investing, reinvesting or trading in securities. If the Company or its subsidiaries are required to register as an investment company it could adversely affect the Company or subsidiary.

We have ongoing investments in the securities of other companies and may continue to make investments in the securities of other companies, among other ongoing investments. The strategic investments of the Company present many risks, and we may not realize intended financial and strategic goals.

We have invested in, and may continue to invest in, other companies, businesses, products, services, technologies and other strategic initiatives. These investments may involve significant risks and uncertainties, including failure to realize anticipated benefits. Investments are inherently risky and the anticipated benefits or value of these investments may not materialize and there can be no assurance that such investments will not adversely affect our business, financial condition or results of operations.

Climate change related events may have a long-term impact on our business.

While we seek to mitigate our business risks associated with climate change, we recognize that there are inherent climate related risks regardless of where we conduct our businesses. Access to clean water and reliable energy in the communities where we conduct our business is a priority. Any of our locations may be vulnerable to the adverse effects of climate change. Climate related events have the potential to disrupt our business, including the business of our customers, and may cause us to experience higher attrition, losses and additional costs to resume operations.

ITEM 13 – EXHIBITS.

The following documents are filed as exhibits hereto:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>	<u>Method of Filing</u>
3.1	Restated Bylaws of ALJ Regional Holdings, Inc., dated as of May 11, 2009	Incorporated by reference to Exhibit 3.4 to Form 10-12B as filed on February 2, 2016
3.2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on August 17, 2018	Incorporated by reference to Exhibit 3.5 to Form 10-K as filed on December 17, 2018
10.1	Voting Agreement, dated as of September 6, 2019, between ALJ Regional Holdings, Inc. and Jess Ravich.	Incorporated by reference to Exhibit 99.1 to Form SC 13D as filed on September 10, 2019

PART III – FINANCIAL STATEMENTS

ALJ REGIONAL HOLDINGS, INC.
Financial Statements (Unaudited)
For the Quarter Ended December 31, 2022

**ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except par value)

	December 31, 2022	September 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,891	\$ 16,729
Marketable investments	12,156	59,878
Accounts receivable, net of allowance for doubtful accounts of \$621 on December 31, 2022 and September 30, 2022	27,417	31,246
Inventories	3,597	3,507
Prepaid expenses and other current assets	8,152	7,976
Total current assets	89,213	119,336
Property and equipment, net	33,669	26,153
Goodwill	—	14,580
Operating lease right-of-use assets	39,548	40,386
Intangible assets, net	8,696	9,338
Collateral deposits	3,266	3,821
Other assets	35,644	35,572
Total assets	\$ 210,036	\$ 249,186
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ 755	\$ 3,000
Accounts payable	5,539	7,320
Accrued expenses	14,470	21,358
Deferred revenue and customer deposits	1,209	655
Term loans	6,026	—
Finance lease obligations - current installments	134	332
Operating lease obligations - current installments	3,718	3,619
Current portion of workers' compensation reserve	900	900
Other current liabilities	60	3,679
Total current liabilities	32,811	40,863
Term loans, less current portion	—	6,026
Workers' compensation reserve, less current portion	1,192	1,392
Operating lease obligations, less current installments	41,326	42,302
Deferred tax liabilities, net	1,162	1,153
Other non-current liabilities	3,527	5,868
Total liabilities	80,018	97,604
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, \$0.01 par value; authorized – 100,000 shares; 26,052 and 37,188 issued and outstanding on December 31, 2022 and September 30, 2022, respectively	261	372
Additional paid-in capital	256,176	278,163
Accumulated deficit	(131,852)	(132,151)
Total ALJ stockholders' equity	124,585	146,384
Noncontrolling interest	5,433	5,198
Total equity	130,018	151,582
Total liabilities and stockholders' equity	\$ 210,036	\$ 249,186

See accompanying notes

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

	Quarter Ended December 31,	
	2022	2021
Revenue:		
Revenue	\$ 44,018	\$ 74,779
Other revenue	3,630	—
Total revenue and other revenue	47,648	74,779
Costs, expenses, and other:		
Cost of revenue	34,286	67,525
Selling, general, and administrative expense	15,709	16,595
Loss on sale of assets and other	2	26
Total operating costs, expenses, and other, net	49,997	84,146
Operating loss	(2,349)	(9,367)
Other income (expense), net:		
Interest, dividend, unrealized gain on investments, net, and other income	3,186	—
Interest expense	(166)	(2,705)
Total other expense, net	3,020	(2,705)
Income (loss) from continuing operations before income taxes	671	(12,072)
Benefit from income taxes	2	101
Net income (loss) from continuing operations	673	(11,971)
Net income from discontinued operations, net of income taxes	—	2,579
Net income (loss)	673	(9,392)
Less: net income attributable to noncontrolling interests	374	—
Net income (loss) attributable to ALJ	\$ 299	\$ (9,392)
Income (loss) per share of common stock—basic:		
Continuing operations	\$ 0.01	\$ (0.28)
Discontinued operations	—	\$ 0.06
Net income (loss) per share ⁽¹⁾	\$ 0.01	\$ (0.22)
Income (loss) per share of common stock—diluted:		
Continuing operations	\$ 0.01	\$ (0.28)
Discontinued operations	—	\$ 0.05
Net income (loss) per share ⁽¹⁾	\$ 0.01	\$ (0.22)
Weighted average shares of common stock outstanding:		
Basic	36,120	42,407
Diluted	48,476	54,439

⁽¹⁾ Amounts may not add due to rounding.

See accompanying notes

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	<u>Quarter Ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Operating activities:		
Net income (loss)	\$ 673	\$ (9,392)
Adjustments to reconcile net income (loss) to cash used for operating activities:		
Depreciation and amortization expense	2,823	3,385
Unrealized gain on marketable investments	(2,219)	—
Amortization of deferred loan costs	—	320
Stock-based compensation expense	13	71
Loss on sale of assets and other	2	26
Deferred income taxes	9	(146)
Changes in operating assets and liabilities:		
Accounts receivable, net	3,829	8,998
Inventories	(90)	—
Prepaid expenses, collateral deposits, and other current assets	(235)	1,430
ROU assets/ROU liabilities	(39)	(263)
Other assets	483	89
Accounts payable	(1,777)	(1,019)
Accrued expenses	(4,288)	(2,621)
Income tax payable	—	24
Deferred revenue	554	(1,915)
Other current liabilities and other non-current liabilities	(3,819)	(3,632)
Discontinued operations, net	—	1,969
Cash used for operating activities	(4,081)	(2,676)
Investing activities:		
Sale of investments	50,000	—
Acquisition, final working capital adjustment	554	—
Proceeds from the sale of assets	10	—
Capital expenditures	(763)	(521)
Discontinued operations, net	—	(1,653)
Cash provided by (used for) investing activities	49,801	(2,174)
Financing activities:		
Share repurchases and retirements	(22,111)	—
Payments on (proceeds from) line of credit, net	(2,245)	6,035
Payments on term loans	—	(950)
Payments on finance leases	(202)	(202)
Deferred loan costs	—	(240)
Cash (used for) provided by financing activities	(24,558)	4,643
Change in cash and cash equivalents	21,162	(207)
Cash and cash equivalents at beginning of the year	16,729	2,276
Cash and cash equivalents at end of the year	\$ 37,891	\$ 2,069

See accompanying notes

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Quarter Ended December 31,	
	2022	2021
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	<u>\$ 166</u>	<u>\$ 2,304</u>
Taxes	<u>\$ 438</u>	<u>\$ 256</u>

See accompanying notes

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(in thousands)

	Quarter Ended December 31,			
	2022		2021	
	Shares	Amount	Shares	Amount
Common Stock:				
Balance, beginning of period	37,188	\$ 372	42,406	\$ 424
Issuance of common stock upon cashless exercise of stock options	—	—	3	—
Share repurchases and retirements	(11,136)	(111)	—	—
Balance, end of period	26,052	261	42,409	424
Additional Paid In Capital:				
Balance, beginning of period		278,163		288,355
Stock-based compensation expense - options		13		44
Share repurchases and retirements		(22,000)		—
Balance, end of period		256,176		288,399
Accumulated Deficit:				
Balance, beginning of period		(132,151)		(276,203)
Net income (loss)		299		(9,392)
Balance, end of period		(131,852)		(285,595)
Total ALJ Stockholders' Equity		124,585		3,228
Noncontrolling Interest				
Balance, beginning of period		5,198		—
Acquisition - final purchase price adjustment		(139)		—
Net income attributable to noncontrolling interests		374		—
Balance, end of period		5,433		—
Total ALJ stockholders' equity		\$ 130,018		\$ 3,228

See accompanying notes

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
QUARTERS ENDED DECEMBER 31, 2022 AND 2021

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

ALJ is a holding company. During the year quarter ended December 31, 2022, ALJ consisted of the following subsidiaries:

- Faneuil, Inc. (including its subsidiaries, “Faneuil”). ALJ owns 100% of Faneuil, 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, focusing on the healthcare, utility, transportation, and toll revenue collection industries. Faneuil is headquartered in Hampton, Virginia. ALJ acquired Faneuil in October 2013. On April 1, 2022, ALJ completed the sale of Faneuil’s tolling and transportation and health benefit exchange vertical (“Faneuil Asset Sale”). See ***Basis of Presentation*** below.
- Realtime Digital Innovations, LLC (d/b/a Vistio) (“Vistio”). ALJ owns 100% of Vistio, a leading provider of technology to empower call center agents with the tools they need to be more productive. Vistio has over 20 years of experience across industries and government helping customers optimize their contact centers by (i) automating process workflows and business intelligence, (ii) generating labor efficiencies for existing programs, (iii) expanding potential new client target entry points, (iv) improving overall customer experience, and (v) increase margin profiles through shorter sales cycles and software license sales. Vistio was acquired in July 2019 under the name Realtime Digital Innovations, LLC (“RDI”). In 2021, RDI rebranded itself as Vistio with a renewed mission to change how contact centers work. Vistio is headquartered in Charleston, South Carolina. On January 1, 2023, the Company completed an internal reorganization merging Vistio with and into ALJ Vistio QOZB LLC (“VQOZB”), each a wholly owned subsidiary of the Company, with VQOZB as the surviving entity. See ***Basis of Presentation*** below.
- Ranew’s Companies. On September 28, 2022, Resin Acquisition Corp., an 80.01% subsidiary of the Company, acquired the equity interests of Ranew’s Truck & Equipment Company, LLC, Ranew’s Outdoor Equipment, Inc., Ranew’s Management Company, Inc., Ranew’s Well Services Division, LLC, Ranew’s Companies, LLC and Ranew’s of Texas, Incorporated (collectively, “Ranew’s Companies,” and such acquisition, the “Ranew’s Acquisition”). Ranew’s Companies, headquartered in Milner, Georgia, are leading suppliers of industrial coating services to multinational manufacturers of equipment and a provider of precision fabrication and assembly and logistics services. See ***Basis of Presentation*** below.

During the quarter ended December 31, 2021, ALJ owned a fourth segment, Phoenix Color Corp. (including its subsidiaries, “Phoenix”). Phoenix is a leading manufacturer of book components, educational materials and related products producing value-added components, heavily illustrated books and commercial specialty products using a broad spectrum of materials and decorative technologies. Phoenix is headquartered in Hagerstown, Maryland. ALJ acquired 100% of Phoenix in August 2015. On April 13, 2022, ALJ completed its sale of Phoenix (“Phoenix Sale”). See ***Basis of Presentation*** below.

Recent Investments

The following is a summary of the recent transactions involving ALJ’s investments:

- Caprice Capital Partners, LLC. On June 20, 2022, the Company entered into a subscription agreement with Caprice Capital Partners, LLC (“Caprice”) in the amount of \$5.0 million. Caprice is a private investment firm focused on providing debt and noncontrolling equity investments in small and lower-middle-market companies based in the United States.
- Hallador Energy Company. On August 12, 2022, the Company purchased an unsecured convertible promissory note (the “Note”) from Hallador Energy Company (NASDAQ: HNRG) (“Hallador”) for a principal sum of \$10.0 million. The Note bears interest at 8.0% per annum paid, at Hallador’s discretion, in cash or in shares of Hallador common stock at the lower of 30-day volume weighted average price (“VWAP”) or \$6.15 (the trailing VWAP on closing). The principal balance and all accrued and unpaid interest are required to be paid on the Note’s maturity date of December 31, 2026, and no prepayments are permitted. The Note also contains a right to convert the principal and accrued interest amounts outstanding on the Note (in whole and not in part) into shares of Hallador common stock at a fixed conversion price of \$6.15 (the trailing VWAP on closing).

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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- A-Mark Precious Metals, Inc. In September 2022, the Company purchased 350,000 shares of common stock of A-Mark Precious Metals, Inc. (NASDAQ: AMRK) (“A-Mark”). A-Mark is a fully integrated precious metals platform that offers an array of gold, silver, platinum, palladium, and copper bullion, numismatic coins, and related products to wholesale and retail customers via a portfolio of channels.
- Qualified Opportunity Zone Investment. As a result of the capital gains generated by the Faneuil Asset Sale and the Phoenix Sale, the Company invested \$20.0 million in a newly formed Qualified Opportunity Zone investment entity (“ALJ QOZ”) on September 26, 2022 for the purpose of investing such funds in a Qualified Opportunity Zone (an economically distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment) business by June 30, 2023. As a result of investing in a Qualified Opportunity Zone, the Company may have the ability to defer the recognition of related capital gains.
 - In December 2022, the ALJ QOZ invested \$10.1 million in GPWM Funds, a real estate real estate fund that provides investors with tax advantaged real estate investing in qualified opportunity zones. The \$10.1 million is specifically invested, along with other qualified opportunity fund investors, in a renovation project in Reno, NV (known as “Reno City Center”). Reno City Center, which acquired a property previously operated as Harrah’s Hotel & Casino, is converting the existing 930 hotel rooms into 529 multi-family units; 130,200 square feet of office; 94,415 square feet of retail and restaurants; and 59,800 square feet of climate-controlled storage. Reno City Center is situated in the heart of downtown Reno, a block from the Truckee River and within one mile of The University Nevada, Reno, and is expected to be fully renovated operational by late 2023.

Basis of Presentation

Overall

The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of ALJ and its wholly- and majority-owned subsidiaries. All intercompany accounts, transactions, and balances have been eliminated in consolidation. Noncontrolling interests represent the proportionate equity interests in consolidated entities that are not 100% owned by the Company. On December 31, 2022, the Company owns an 80.01% controlling interest in Ranew’s Companies and therefore is required to consolidate 100% of Ranew’s Companies within its consolidated financial statements. The 19.99% interest the Company does not own is accounted for as Noncontrolling interests. Certain reclassifications have been made to prior periods to conform with current reporting. Specifically, on the consolidated balance sheet, the line of credit was reclassified from long-term liabilities to current liabilities on September 30, 2022.

Discontinued Operations – Phoenix

In February 2022, ALJ entered into a stock purchase agreement to sell all of the outstanding shares of common stock of Phoenix for cash consideration, including post-closing working capital adjustments, totaling approximately \$135.9 million. The Phoenix Sale closed on April 13, 2022. The Company recorded a gain on sale of discontinued operations, net of related income taxes, of \$51.6 million during the quarter ended June 30, 2022.

The Company determined that the Phoenix Sale qualified as discontinued operations as defined by ASC 205 because the Phoenix Sale represented a strategic shift with a major effect on the Company’s operations and financial results. Pursuant to ASC 205, Phoenix assets, liabilities, results of operations, and cash flows were classified as discontinued operations for all periods presented. See Note 4 for additional financial information about Phoenix’s discontinued operations.

Asset Sale - Faneuil

In December 2021, ALJ entered into an agreement to sell certain assets of Faneuil’s tolling and transportation vertical and health benefit exchange vertical. The Faneuil Asset Sale closed on April 1, 2022, for cash consideration of \$142.3 million less an indemnification escrow amount of approximately \$15.0 million, of which \$3.6 million has been received through September 30, 2022. Faneuil is also eligible to receive additional earn-out payments based upon the performance of certain customer agreements in an aggregate amount of up to \$25.0 million. The Company recorded a gain on sale of assets, net of related income taxes, of \$115.7 million during the quarter ended June 30, 2022.

In connection with the Faneuil Asset Sale, Faneuil entered into a Transition Services Agreement (“TSA”), which is designed to ensure

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
QUARTERS ENDED DECEMBER 31, 2022 AND 2021

and facilitate an orderly transfer of the tolling and transportation vertical and health benefit exchange vertical. The services provided under the TSA will terminate at various times between 30 days and 365 days from the closing date of the Faneuil Asset Sale and can be renewed, in whole or in part, in 30-day increments, for a maximum of 180 days. Revenue earned from the TSA was disclosed as other revenue on the consolidated statements of operations during the quarter ended December 31, 2022. TSA-related expenses were recorded in their natural expense classification.

The Company determined that the Faneuil Asset Sale did not qualify as discontinued operations as defined by ASC 205 because the Faneuil Asset Sale does not represent a strategic shift with a major effect on the Company's operations and financial results. As such, Faneuil assets, liabilities, results of operations, and cash flows were included with continuing operations for all periods presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Although actual results could differ materially from those estimates, such estimates are based on the best information available to management and management's best judgments at the time. Significant estimates and assumptions by management are used for, but are not limited to, determining the fair value of assets and liabilities, including intangible assets acquired and allocation of acquisition purchase prices, estimated useful lives of certain assets, recoverability of long-lived and intangible assets, the recoverability of goodwill, the realizability of deferred tax assets, stock-based compensation, the likelihood of material loss as a result of loss contingencies, customer lives used for revenue recognition, the allowance for doubtful accounts and inventory reserves, and calculation of insurance reserves. Actual results may differ materially from estimates.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting in accordance with the Financial Accounting Standards Board ("FASB") ASC 805, *Business Combinations* ("ASC 805"). The Company recognizes the fair value of the assets acquired and liabilities assumed, immediately expenses transaction costs and accounts for restructuring plans separately from the business combination. The excess of the cost of the acquisition over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. Results of operations of the acquired business are included in the Consolidated Statements of Operations from the effective date of acquisition.

ALJ uses its best estimates and assumptions to accurately value assets acquired, and liabilities assumed at the acquisition date. The measurement period for the valuation of assets acquired and liabilities assumed ends as soon as information on the facts and circumstances that existed as of the acquisition dates becomes available but does not exceed 12 months. Adjustments to purchase price allocations may require a change in the amounts allocated to goodwill during the periods in which the adjustments are determined.

Cash and Cash Equivalents

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

Investments

Investments include treasury bills, equity securities, debt securities, and ALJ QOZ. Investments with original maturities longer than three months at the time of purchase and less than one year from period end are classified as short-term. All other investments are classified as long-term.

ALJ determines the appropriate classifications of its investments at the acquisition date and re-evaluates the classifications at each balance sheet date. Treasury bills and equity securities are accounted for as available-for-sale and recorded at fair value with changes in unrealized gains and losses resulting from changes in fair value reflected in the statements of operations. Debt securities are accounted for as held-to-maturity and recorded at amortized cost, which approximates fair value. The ALJ QOZ funds were invested in money market funds on December 31, 2022. See Note 6.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
QUARTERS ENDED DECEMBER 31, 2022 AND 2021

Accounts Receivable

ALJ presents accounts receivable, net of allowances for doubtful accounts and returns. Allowances, when required, are calculated based on a detailed review of certain individual customer accounts and an estimation of the overall economic conditions affecting ALJ's customer base. ALJ reviews a customer's credit history before extending credit. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Inventory

Inventory, which consists primarily of steel, trailer components, and paint, is stated at lower of cost or net realizable value. Cost is determined using FIFO and includes direct materials, direct labor, and applicable overhead. The Company reserves for slow-moving and obsolete inventory based on historical and/or projected usage of the product.

Property and Equipment

Property and equipment are initially recorded at cost and are depreciated over the estimated useful lives of the assets using the straight-line method. Estimated useful lives are as follows:

Description	Estimated Useful Life
Computer and office equipment	3–7 years
Computer software	3–6 years
Furniture and fixtures	7–10 years
Leasehold improvements	Shorter of useful life or lease term
Equipment under capital leases	Shorter of useful life or lease term
Equipment	5–12 years
Vehicles and commercial trucks	5 years

Property and equipment acquired in a business acquisition are recorded at fair value on the date of acquisition. Subsequent purchases are recorded at historical cost. Significant improvements and betterments are capitalized. Routine repairs and maintenance are expensed when incurred. Gains and losses on disposal of fixed assets are recognized in the consolidated statements of operations based on the net disposal proceeds less the carrying amount of the assets.

Leases and Lease Impairment

Leases

ALJ has operating leases for facilities, equipment, and vehicles, and finance leases for equipment. Over 95% of operating leases are for facilities. Many of the Company's facilities leases contain renewal options and rent escalation clauses. The Company subleases excess facility space. Sublease payments received were immaterial for all periods presented.

The Company determines if an arrangement is a lease at inception and recognizes a finance or operating lease liability and right-of-use asset in the Company's consolidated balance sheet. Right-of-use assets and lease liabilities for both operating and finance leases are recognized based on present value of lease payments over the lease term at commencement date.

In instances where the lease does not provide an implicit rate, the Company estimates an incremental borrowing rate ("IBR") based on the information available at commencement date to determine the present value of lease payments. ALJ does not have a published credit rating because it has no publicly traded debt. However, the Company does have several privately held debt instruments that were taken into consideration. The Company generates its IBR, using a synthetic credit rating model that estimates the likelihood (probability) of a borrower receiving a given credit rating based on relevant credit factors or predictor variables. It is based on a regression analysis using selected financial ratios of publicly traded industry comparable companies and the companies' credit ratings. The estimated IBR is then adjusted for (i) the length of the lease term, and (ii) the effect of designating specific collateral with a value equal to the unpaid lease payments. Finally, ALJ applies the estimated IBR on a lease-by-lease basis as each lease has different start and end dates and has different assumptions regarding purchase or renewal options.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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For facilities leases, ALJ accounts for non-lease components such as maintenance, taxes, and insurance, separately. For equipment leases, ALJ accounts for lease and non-lease components as a single lease component. The difference between the operating lease right-of-use assets and operating lease liabilities primarily relates to adjustments for deferred rent and tenant improvement allowances.

Lease Impairment

The Company tests right-of-use (“ROU”) assets when impairment indicators are present. If impairment indicators exist, a discounted cash flow analysis on the ROU asset is performed. If the net carrying value exceeds the estimated discounted future cash flows, the excess is expensed as a lease impairment.

Goodwill

ALJ records goodwill when the purchase price of an acquisition exceeds the fair value of the net tangible and identified intangible assets acquired. ALJ assigns the goodwill to its reporting units consistent with the future economic benefits and synergies expected to be achieved. ALJ performs an impairment assessment annually as of September 30, or more frequently if indicators of potential impairment exist, which includes evaluating qualitative and quantitative factors to assess the likelihood of an impairment of a segment’s goodwill.

Intangible Assets

ALJ’s intangible assets are acquisition-related, recorded at fair value on the dates acquired, and subject to amortization. ALJ amortizes intangible assets over their estimated useful life based on expected economic benefit using the straight-line method. In the quarter following the period in which the intangible asset becomes fully amortized, ALJ removes the fully amortized balances from the gross asset and accumulated amortization amounts.

The estimated useful life ranges for all identified intangible assets were as follows:

Description	Estimated Useful Life (Years)
Non-compete agreements	2-6
Supply agreements	4-15
Technology	8
Internal-use software	6
Customer relationships	12-15
Trade names	15-30

Deferred Loan Costs

Deferred loan costs related to ALJ’s term loans are amortized to interest expense using the effective yield method over the contractual life of the debt. Additional amortization is recorded in periods where optional prepayments on debt are made. Deferred loan costs related to ALJ’s line of credit are amortized to interest expense using the straight-line method over the life of the debt. During the quarter ended June 30, 2022, ALJ wrote off all deferred loan costs as the related debt was paid off. See Note 9.

Workers’ Compensation Reserve

Faneuil is self-insured for workers’ compensation claims up to \$500,000 per incident. Reserves have been provided for workers’ compensation based on insurance coverages, third-party actuarial analysis, and management’s judgment. Effective October 1, 2022, Faneuil changed to a fully insured plan. All other segments maintain outside insurance to cover workers’ compensation claims.

Fair Value of Financial Instruments

ALJ accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. ALJ categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
QUARTERS ENDED DECEMBER 31, 2022 AND 2021

Level 1. Inputs are based upon unadjusted quoted prices for identical instruments in active markets. As valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these investments does not require a significant degree of judgment. ALJ's Level 1 assets consist of equity securities that are traded on the NASDAQ national market. See Note 6. ALJ had no Level 1 liabilities.

Level 2. Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g., the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. ALJ had no Level 2 assets or liabilities.

Level 3. Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Unobservable inputs used in the models are significant to the fair values of the assets and liabilities. ALJ had no Level 3 assets. ALJ's only Level 3 liabilities are acquisition-related contingent consideration. The fair values were determined using a variation of the income approach, known as the real options method, where certain revenue was simulated in a risk-neutral framework using Geometric Brownian Motion, a well-accepted model of stock price behavior that is used in option pricing models such as the Black-Scholes option pricing model. See Note 4.

Certain of the Company's financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate their fair value due to their liquid or short-term nature, such as accounts receivable and payable, and other financial instruments in current assets or current liabilities.

Revenue from Contracts with Customers

The Company recognizes revenue when control of the promised goods or services is transferred to its customers in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services.

Faneuil. Faneuil customer contracts are typically in the form of a written contract executed between Faneuil and its customers that may include a Statement of Work, Request for Proposal, Responses to the Request for Proposal, and other correspondence. The contracts often provide the customer with renewal and/or termination options that impact the contract term under ASC 606.

Faneuil contracts often include promises to transfer multiple products and services to its customers. Determining whether products and services are considered distinct performance obligations that should be accounted for separately, versus together, requires significant judgment. Typically, Faneuil contracts include performance obligation(s) to stand-ready on a daily or monthly basis to provide services to its customers. Under a stand-ready obligation, the evaluation of the nature of the performance obligation is focused on each time increment rather than the underlying activities. Accordingly, the promise to stand-ready is accounted for as a single-series performance obligation.

Faneuil provides implementation activities prior to commencing services under the stand-ready obligation. The determination of whether the implementation activities are classified as fulfillment activities or promised goods and services and the determination of whether the implementation promised goods and services are distinct performance requirements requires significant judgment.

Once Faneuil determines the performance obligations, Faneuil estimates the amount of variable consideration to be included in determining the transaction price. Typical forms of variable consideration include variable pricing based on the number of transactions processed or usage-based pricing arrangements. Variable consideration is also present in the form of tiered and declining pricing, penalties for service level agreements, performance bonuses, and credits. In circumstances where Faneuil meets certain requirements to allocate variable consideration to a distinct service within a series of related services, Faneuil allocates variable consideration to each distinct period of service within the series. If Faneuil does not meet those requirements, Faneuil includes an estimate of variable consideration in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty is resolved. For contracts with multiple performance obligations, the transaction price is allocated to the separate performance obligations on a relative stand-alone selling price basis. Faneuil generally determines stand-alone selling prices based on the prices charged to customers or by using expected cost plus a margin.

Faneuil typically satisfies its performance obligations over time as the services are provided. A time-elapsed output method is used to

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measure progress because the nature of Faneuil's promise is a stand-ready service and efforts are expended evenly throughout the period. Faneuil uses a cost-to-cost based input method to measure progress on its implementation services. Faneuil has determined that the above methods provide a faithful depiction of the transfer of services to the customer.

Revenue expected to be recognized in future periods exclude unexercised customer options to purchase additional services that do not represent material rights to the customer. Customer options that do not represent a material right are only accounted for when the customer exercises its option to purchase additional goods or services.

When more than one party is involved in providing services to a customer, Faneuil evaluates whether it is the principal, and reports revenue on a gross basis, or as an agent, and reports revenue on a net basis. In this assessment, Faneuil considers the following: if it obtains control of the specified services before they are transferred to the customer; if it is primarily responsible for fulfillment; and whether it has discretion in establishing price. Based on its evaluation, in most circumstances, Faneuil determined that it acts as the principal.

Faneuil's payment terms vary by type of services offered. Generally, the time between provision of services during the operational phase, invoicing, and when payment is due is not significant. However, Faneuil sometimes receives advances or deposits from its customers before revenue is recognized, resulting in deferred revenue, which is recorded as a contract liability. The timing of when Faneuil bills its customers during the implementation phase is generally dependent upon agreed-upon contractual terms, milestone billings based on the completion of certain phases of the work, or when services are provided. Sometimes, billing occurs subsequent to transfer of control of goods or services, resulting in unbilled revenue, which is recorded as a contract asset.

From time to time, Faneuil contracts are modified to account for additions or changes to existing performance obligations. Each modification is evaluated under the guidance of ASC 606 and accounted for based on the specific modifications. When a contract modification relates to a stand-ready performance obligation, the impact of the modification is generally accounted for prospectively.

Vistio. Vistio derives the majority of its revenues from recurring monthly subscription fees charged for the use of its software-as-a-service ("SaaS") subscription services. SaaS fees are generally recognized as revenue over the term of the contract as a series of distinct SaaS services bundled into a single performance obligation. Clients are usually charged a one-time, upfront implementation fee. Implementation is complex, and the Company has determined that the one-time, upfront services do not transfer a promised service to the client. As these services are not distinct, they are bundled into the SaaS series of services, and the associated fees are recognized on a straight-line basis over the subscription term.

Ranew's Companies. Contracts with customers are typically in the form of a purchase order issued to the Ranew's Companies by its customers.

The majority of Ranew's Companies revenue is derived from purchases under which Ranew's Companies provides a specific product or service and, as a result, each product or service is one performance obligation.

Revenue is measured as the amount of consideration Ranew's Companies expects to receive in exchange for transferring goods or providing services, which is based on transaction prices set forth in contracts/purchase orders with customers and an estimate of variable consideration, as applicable.

Variable consideration such as sales discounts that are offered within contracts between Ranew's Companies and its customers is recognized in the period the related revenue is recognized. Estimates of variable consideration are based on stated contract terms and an analysis of historical experience. The amount of variable consideration is included in the net sales price only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period.

Ranew's Companies recognizes revenue at a point in time for substantially all products and services. The point in time when revenue is recognized is when the performance obligation has been completed and the customer obtains control of the products, which is generally upon shipment to the customer (dependent upon specific shipping terms).

Billings for shipping and handling costs are recorded in revenue on a gross basis. Ranew's Companies made an accounting policy election under ASC 606 to account for shipping and handling after the customer obtains control of the good as fulfillment activities rather than as a separate service to the customer.

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In limited circumstances, Ranew's Companies collects taxes from its customers. When taxes are collected, Ranew's Companies records the taxes collected from customers and remitted to governmental authorities on a net basis.

Contracts do not contain a significant financing component as payment terms on invoiced amounts are typically between 30 to 60 days, based on a credit assessment of individual customers, as well as industry expectations.

The timing of revenue recognition, billings, and cash collections results in accounts receivable and unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the consolidated balance sheet. Revenue recognition generally coincides with Ranew's Companies' contractual right to consideration and the issuance of invoices to customers. Depending on the nature of the performance obligation and arrangements with customers, the timing of the issuance of invoices may result in contract assets or contract liabilities. Sometimes, billing occurs subsequent to transfer of control of goods or services, resulting in unbilled revenue, which is recorded as a contract asset. Contract liabilities result from advances or deposits from customers on performance obligations not yet satisfied.

Ranew's Companies provides a warranty that the products conform to the customer specifications and are free of defects. The warranty is classified as an assurance warranty. Ranew's Companies generally obtains customer approval prior to commencing production to minimize warranty issues. As a result, warranty claims are generally not significant.

Because the majority of Ranew's Companies products are customized, product returns are not significant. However, Ranew's Companies accrues for the estimated amount of customer returns at the time of sale, if deemed material.

Stock-Based Compensation

ALJ 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. ALJ uses the quoted closing market price of its common stock on the grant date to measure the fair value of common 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 ALJ'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. ALJ has never paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, uses an expected dividend yield of zero.

Impairment of Long-Lived Assets

Goodwill. The Company assesses the recoverability of goodwill on an annual basis in accordance with ASC 350 *Intangibles - Goodwill and Other*. The measurement date is September 30, or more frequently, if events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than the carrying value. The impairment test includes evaluating qualitative and quantitative factors to assess the likelihood of an impairment of goodwill. Goodwill is assessed at the reporting-unit level.

Long-Lived Assets. Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Long-lived assets to be disposed of by sale are reported at the lower of their carrying amounts or their estimated fair values, less costs to sell, and are not depreciated.

The Company did not have any impairment of long-lived assets during any period presented in this quarterly report.

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Interest, Dividend, Unrealized Gain on Investments, Net, and Other Income

Interest and dividend income includes dividends and interest generated from cash and equity investments held. Dividend and interest income is recognized when earned. Equity securities are accounted for as available-for-sale and recorded at fair value with changes in unrealized gains and losses resulting from changes in fair value reflected in the statements of operations.

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 amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by the valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company's judgments relative to the current provision for income taxes consider current tax laws, the 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. The Company's judgments relative to the value of deferred tax assets and liabilities consider estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause actual income tax obligations to differ from 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 is adequate for all open years based on its assessment of many factors, including past experience and interpretation of tax law applied to the facts of each matter.

Income (Loss) Per Share

Basic income (loss) per share is computed by dividing net income (loss) for the period by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per share is computed by dividing net income (loss) for the period by the weighted-average number of common shares outstanding during the period, plus the dilutive effect of outstanding convertible debt, warrants, and employee stock options as applicable pursuant to the treasury stock method.

Recent Accounting Pronouncements Adopted

Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)*, which addresses issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options. ALJ adopted ASU 2021-04 on October 1, 2022. The adoption did not significantly impact ALJ's consolidated financial statements and related disclosures.

Accounting Standards Not Yet Adopted

Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The new guidance requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, as if it had originated the contracts. This approach differs from the current requirement to measure contract assets and contract liabilities acquired in a business combination at fair value. ASU 2021-

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08 will be effective for ALJ on October 1, 2023. The adoption impact of the new standard will depend on the magnitude of future acquisitions. The standard will not impact acquired contract assets or liabilities from business combinations occurring prior to the adoption date.

3. REVENUE RECOGNITION

Disaggregation of Revenue

Revenue by contract type was as follows for the quarters ended December 31, 2022 and 2021:

<i>(in thousands)</i>	Quarter Ended December 31,	
	2022	2021
Faneuil:		
Utility	\$ 16,524	\$ 13,161
Healthcare	7,632	33,501
Other	5	911
Government	519	1,924
Transportation	—	25,282
Total revenue	24,680	74,779
Other revenue	3,630	—
Total Faneuil	\$ 28,310	\$ 74,779
Ranew's Companies:		
Other	\$ 16,087	\$ —
Branded products	2,684	—
Total Ranew's Companies	\$ 18,771	\$ —
Vistio:		
Other	\$ 525	\$ —
Utility	42	—
Total Vistio	\$ 567	\$ —
Total consolidated revenue, net	\$ 47,648	\$ 74,779

Substantially all Faneuil revenue and Vistio revenue is recognized over time. Substantially all Ranew's Companies revenue is recognized at a point in time.

Other Revenue

As discussed in Note 1, other revenue was attributable to Faneuil's TSA. The TSA has a single performance obligation, as the promises to provide the identified services are not distinct within the context of the TSA. The single performance obligation constitutes a series of distinct services as the customer benefits as services are provided. Service revenue is recognized over time using the input method. The input method provides a faithful depiction of the performance toward complete satisfaction of the performance obligation and can be tied to the direct cost incurred.

Contract Assets and Liabilities

ALJ did not have any contract liabilities on December 31, 2022 or September 30, 2022. The following table provides information about consolidated contract assets on December 31, 2022 and September 30, 2022:

<i>(in thousands)</i>	December 31,	September 30,
	2022	2022
Contract liabilities:		
Deferred revenue	\$ 1,209	\$ 655
Total contract liabilities	\$ 1,209	\$ 655

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The following table provides changes in consolidated contract liabilities from September 30, 2022 to December 31, 2022:

<i>(in thousands)</i>	Contract Liabilities
Balance, September 30, 2022	\$ 655
Revenue recognized	(408)
Cash received from customer and other	962
Balance, December 31, 2022	\$ 1,209

Deferred Revenue and Remaining Performance Obligations

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from call center services, including non-refundable payments made prior to operations. Deferred revenue is recognized as revenue when transfer of control to customers has occurred. Customers are typically invoiced for these agreements in regular installments and revenue is recognized ratably over the contractual service period. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing, size and new business linearity within the quarter. Deferred revenue does not represent the total contract value of annual or multi-year non-cancellable agreements.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that contracts generally do not include a significant financing component. The primary purpose of invoicing terms is to provide customers with simplified and predictable ways of purchasing products and services, not to receive financing from customers. Any potential financing fees are considered de minimis.

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue. Transaction price allocated to the remaining performance obligation is influenced by several factors, including the timing of renewals and average contract terms. The Company applied practical expedients to exclude amounts related to performance obligations that are billed and recognized as they are delivered, optional purchases that do not represent material rights, and any estimated amounts of variable consideration that are subject to constraint in accordance with the new revenue standard.

The Company has elected to apply the optional exemption for the disclosure of remaining performance obligations for contracts that have an original expected duration of one year or less, are billed and recognized as services are delivered and/or variable consideration allocated entirely to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation. This primarily consists of call center services that are billed monthly based on the services performed each month.

Costs to Obtain a Contract

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The costs to obtain a contract capitalized are primarily sales commissions paid to our sales force personnel. Capitalized costs may also include portions of fringe benefits and payroll taxes associated with compensation for incremental costs to acquire customer contracts and incentive payments to partners. These costs are amortized over the term of the contract or the estimated life of the customer relationship if renewals are expected and the renewal commission is not commensurate with the initial commission. The Company expenses sales commissions when incurred if the amortization period of the sales commission is one year or less. The accounting for incremental costs of obtaining a contract with a customer is consistent with the accounting under previous guidance.

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The following table provides changes in costs to obtain a contract for the quarters ended December 31, 2022 and 2021:

	Quarter Ended December 31,	
	2022	2021
Balance, beginning of period	\$ 232	\$ 239
Amortization, included in selling, general, and administrative expense	(92)	(62)
Balance, end of period	<u>\$ 140</u>	<u>\$ 177</u>
Reported as of end of period		
Current - prepaid expenses and other current assets	120	141
Noncurrent - other assets	20	36
Total	<u>\$ 140</u>	<u>\$ 177</u>

Costs to Fulfill a Contract

The Company also capitalizes costs incurred to fulfill its contracts that (i) relate directly to the contract, (ii) are expected to generate resources that will be used to satisfy the Company's performance obligation under the contract, and (iii) are expected to be recovered through revenue generated under the contract. Contract fulfillment costs are expensed to cost of revenue as the Company satisfies its performance obligations by transferring the service to the customer. These costs are amortized on a systematic basis over the expected period of benefit.

The following table provides changes in costs to fulfill a contract for the quarters ended December 31, 2022 and 2021:

	Quarter Ended December 31,	
	2022	2021
Balance, beginning of period	\$ 470	\$ 2,884
Additions	—	2,170
Amortization, included in selling, general, and administrative expense	(57)	(3,251)
Balance, end of period	<u>\$ 413</u>	<u>\$ 1,803</u>
Reported as of end of period		
Current - prepaid expenses and other current assets	204	1,432
Noncurrent - other assets	209	371
Total	<u>\$ 413</u>	<u>\$ 1,803</u>

Capitalized costs to obtain and fulfill a contract are periodically reviewed for impairment. ALJ did not incur any impairment losses during the quarters ended December 31, 2022 and 2021.

4. ACQUISITIONS, DIVESTITURES, AND DISCONTINUED OPERATIONS

Phoenix Sale

As previously discussed in Note 1, ALJ sold Phoenix on April 13, 2022. The following table presents certain components of results of operations reported as discontinued operations, attributable to Phoenix, for the quarter ended December 31, 2021:

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<i>(in thousands)</i>	Quarter Ended December 31, 2021
Revenue	\$ 28,304
Operating income	3,076
Net income from discontinued operations, net of income taxes	2,579

The following table presents certain components of cash flows reported as discontinued operations, attributable to Phoenix, for the quarter ended December 31, 2021:

<i>(in thousands)</i>	Quarter Ended December 31, 2021
Operating activities:	
Depreciation and amortization expense	\$ 2,045
Provision for bad debts and obsolete inventory and other	(2)
Changes in operating assets and liabilities:	
Accounts receivable, net	(257)
Inventories, net	151
Prepaid expenses, collateral deposits, and other current assets	465
Other assets and liabilities, net	(433)
Investing activities:	
Capital expenditures	(1,653)

Ranew's Acquisition

Background

As previously discussed in Note 1, ALJ acquired Ranew's Companies on September 28, 2022 ("Ranew's Acquisition Date"). The aggregate consideration for the Ranew's Acquisition was (i) \$20.8 million cash, subject to 90-day working capital adjustment, of which \$19.8 million was paid at closing and \$1.0 million was paid in October 2022, and (ii) two earn-outs. Each earn-out payment is equal to the product of the increase in the adjusted EBITDA over EBITDA in the trailing twelve (12) month ("TTM") period prior to the applicable earn-out payment date multiplied by 3.25. The earn-outs do not have a maximum payout. The 90-day working capital adjustment of \$0.6 million was paid by the seller to ALJ during the quarter ended December 31, 2022.

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The following schedule reflects the original and final fair value of assets acquired and liabilities assumed on the Ranew's Acquisition Date (*in thousands*):

Balance Sheet Caption	Purchase Price Allocation		
	Original Estimate (1)	Adjustment (2)	Final
Total current assets	\$ 13,841		\$ 13,841
Fixed assets	16,589	8,946	25,535
Goodwill	13,995	(13,995)	—
Total assets	44,425	(5,049)	39,376
Accrued expenses	(2,719)		(2,719)
Line of credit	(3,000)	—	(3,000)
Fair value of contingent consideration	(14,141)	4,941	(9,200)
Deferred tax liabilities, net	—	(585)	(585)
Noncontrolling interest	(5,198)	139	(5,059)
Cash paid (received), net of cash received	\$ 19,367	\$ (554)	\$ 18,813

- (1) Recorded on Ranew's Acquisition Date.
(2) Recorded during the quarter ended December 31, 2022.

The Company accounted for the Ranew's Acquisition using the purchase method of accounting. Accordingly, the assets and liabilities were recorded at their fair values at the date of acquisition. The excess of the purchase price over the fair value of the tangible and intangible assets acquired, liabilities assumed, and deferred and contingent consideration, was recorded as goodwill. During the measurement period, if updated or final information is obtained about facts and circumstances that existed as of the acquisition date, cumulative changes in the estimated fair values of the net assets recorded may change the amount of the purchase price allocable to goodwill. During the measurement period, which expires one year from the acquisition date, changes to any purchase price allocations will be adjusted in the reporting period in which the adjustment amount is determined.

Fair Value Adjustment of Acquisition-Related Deferred and Contingent Consideration Liabilities

The fair value of ALJ's acquisition-related deferred and contingent consideration liabilities is remeasured to fair value at each reporting period using Level 3 inputs such as cash flow forecast, discount rate, and equity risk premium. The change in fair value, including accretion for the passage of time, is recognized in earnings until the deferred and contingent considerations are resolved. ALJ did not record any change to deferred and contingent consideration liabilities during the quarters ended December 31, 2022 and 2021.

Acquisition-Related Expenses

During the quarters ended December 31, 2022 and 2021, the Company incurred \$0.5 million and \$2.4 million of acquisition-related expenses, which were expensed to selling, general, and administrative expense.

5. CONCENTRATION RISKS

Cash and Cash Equivalents

The Company maintains its cash balances in accounts, which, at times, may exceed federally insured limits. The Company has not experienced any loss in such accounts and believes there is little exposure to any significant credit risk.

Major Customers and Accounts Receivable

Each of ALJ's segments had customers that represent more than 10% of their respective revenue, as described below.

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Faneuil. The percentages of Faneuil revenue derived from its significant customers were as follows:

	Quarter Ended December 31,	
	2022	2021
Customer A	21.3%	**
Customer B	14.5	**
Customer C	12.8	**
Customer D	**	15.8%
Customer E	**	12.1
Customer F	**	11.1

** Less than 10% of Faneuil revenue.

Accounts receivable from Faneuil significant customers during the quarter ended December 31, 2022 totaled \$10.8 million on December 31, 2022. As of December 31, 2022, all Faneuil accounts receivables were unsecured. The risk with respect to accounts receivable is mitigated by credit evaluations performed on customers and the short duration of payment terms extended to customers.

Ranew's Companies. The percentages of Ranew's Companies revenue derived from its significant customers were as follows:

	Quarter Ended December 31, 2022	
	Customer A	45.3%
Customer B	20.7	

Accounts receivable from Ranew's Companies significant customers during the quarter ended December 31, 2022 totaled \$6.9 million on December 31, 2022. As of December 31, 2022, all Ranew's Companies accounts receivables were unsecured. The risk with respect to accounts receivable is mitigated by credit evaluations performed on customers and the short duration of payment terms extended to customers.

Vistio. The percentages of Vistio revenue derived from its significant customers were as follows:

	Quarter Ended December 31,	
	2022	2021
Customer A	92.5%	**

** Vistio revenue was 100% related to Faneuil and eliminated during consolidation.

Accounts receivable from significant customers during the quarter ended December 31, 2022 totaled \$0.4 million on December 31, 2022. As of December 31, 2022, all Vistio accounts receivable were unsecured. The risk with respect to accounts receivable is mitigated by credit evaluations performed on customers and the short duration of payment terms extended to most customers.

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6. INVESTMENTS

The following table summarizes the Company's short-term and non-current investments recorded in the consolidated balance sheets o at the end of each reporting period:

<i>(in thousands)</i>	December 31, 2022			September 30, 2022		
	Short-Term	Non-Current ⁽¹⁾	Total	Short-Term	Non-Current ⁽¹⁾	Total
Available-for-Sale:						
Equity securities (A-Mark)	\$ 12,156	\$ —	\$ 12,156	\$ 9,937	\$ —	\$ 9,937
Held-to-Maturity:						
Treasury bills	—	—	—	49,941	—	49,941
Debt securities (Caprice)	—	5,000	5,000	—	5,000	5,000
Debt securities (Hallador)	—	10,000	10,000	—	10,000	10,000
ALJ QOZ	—	20,127	20,127	—	20,005	20,005
Total investments	<u>\$ 12,156</u>	<u>\$ 35,127</u>	<u>\$ 47,283</u>	<u>\$ 59,878</u>	<u>\$ 35,005</u>	<u>\$ 94,883</u>

⁽¹⁾ Included in other assets on the consolidated balance sheets.

7. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

Accounts Receivable, Net

The following table summarizes accounts receivable at the end of each reporting period:

<i>(in thousands)</i>	December 31, 2022	September 30, 2022
Accounts receivable	\$ 28,038	\$ 31,867
Unbilled receivables	—	—
Accounts receivable	28,038	31,867
Less: allowance for doubtful accounts	(621)	(621)
Accounts receivable, net	<u>\$ 27,417</u>	<u>\$ 31,246</u>

Inventories, Net

The following table summarizes inventories at the end of each reporting period:

<i>(in thousands)</i>	December 31, 2022	September 30, 2022
Raw materials	\$ 3,072	\$ 3,054
Work in process	346	286
Finished goods	179	167
Inventories	<u>\$ 3,597</u>	<u>\$ 3,507</u>

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Property and Equipment

The following table summarizes property and equipment at the end of each reporting period:

<i>(in thousands)</i>	December 31, 2022	September 30, 2022
Leasehold improvements	\$ 24,966	\$ 16,457
Machinery and equipment	16,497	16,011
Computer and office equipment	11,309	11,162
Software	9,857	9,857
Furniture and fixtures	3,250	3,209
Vehicles	541	696
Buildings	443	—
Property and equipment	66,863	57,392
Less: accumulated depreciation and amortization	(33,194)	(31,239)
Property and equipment, net	\$ 33,669	\$ 26,153

Property and equipment depreciation and amortization expense, including amounts related to finance leased assets, was \$2.2 million and \$2.7 million for the quarters ended December 31, 2022 and 2021, respectively.

Intangible Assets

The following tables summarize identified intangible assets at the end of each reporting period:

<i>(in thousands)</i>	Weighted Average Original Life (Years)	Weighted Average Remaining Life (Years)	December 31, 2022		
			Gross	Accumulated Amortization	Net
			\$	\$	\$
Customer relationships	12.0	3.6	\$ 16,550	\$ (11,640)	\$ 4,910
Trade names	15.0	5.8	1,500	(920)	580
Supply agreements	7.0	1.4	2,910	(2,321)	589
Technology	8.0	4.6	3,400	(1,452)	1,948
Non-compete agreements	6.6	2.9	1,550	(881)	669
			\$ 25,910	\$ (17,214)	\$ 8,696

<i>(in thousands)</i>	Weighted Average Original Life (Years)	Weighted Average Remaining Life (Years)	September 30, 2022		
			Gross	Accumulated Amortization	Net
			\$	\$	\$
Customer relationships	12.0	3.9	\$ 16,550	\$ (11,294)	\$ 5,256
Trade names	15.0	6.0	1,500	(895)	605
Supply agreements	7.0	1.7	2,910	(2,217)	693
Technology	8.0	4.8	3,400	(1,346)	2,054
Non-compete agreements	6.6	3.1	1,550	(820)	730
Totals			\$ 25,910	\$ (16,572)	\$ 9,338

Intangible asset amortization expense was \$0.6 million for both quarters ended December 31, 2022 and 2021.

The following table presents changes in the carrying values of intangible assets by category during the quarter ended December 31,

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2022:

<i>(in thousands)</i>	Customer Relationships	Trade Names	Supply Agreements	Technology	Non-Compete Agreements	Accumulated Amortization	Total, Net
Balance, September 30, 2022	\$ 16,550	\$ 1,500	\$ 2,910	\$ 3,400	\$ 1,550	\$ (16,572)	\$ 9,338
Amortization expense	—	—	—	—	—	(642)	(642)
Balance, December 31, 2022	\$ 16,550	\$ 1,500	\$ 2,910	\$ 3,400	\$ 1,550	\$ (17,214)	\$ 8,696

The following table presents expected future amortization expense as of December 31, 2022:

<i>(in thousands)</i>	Estimated Future Amortization
Fiscal 2023 <i>(remaining)</i>	\$ 1,926
Fiscal 2024	2,428
Fiscal 2025	2,152
Fiscal 2026	1,664
Fiscal 2027	421
Thereafter	105
Total	\$ 8,696

Accrued Expenses

The following table summarizes accrued expenses at the end of each reporting period:

<i>(in thousands)</i>	December 31, 2022	September 30, 2022
Acquisition contingent consideration	\$ 8,600	\$ 11,200
Accrued compensation and related taxes	5,293	5,622
Other	272	1,348
Medical and benefit-related payables	257	1,158
Accrued board of director fees	48	30
Legal	—	2,000
Total accrued expenses	\$ 14,470	\$ 21,358

Interest, Dividend, and Other Income

The following table sets forth the composition of interest, dividend, and other income:

<i>(in thousands)</i>	Quarter Ended December 31,	
	2022	2021
Unrealized gain on investments, net, and other income	\$ 2,219	\$ —
Interest income	897	—
Dividend income	70	—
Total interest, dividend, unrealized gain on investments, net, and other income	\$ 3,186	\$ —

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8. INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

<i>(in thousands, except per share amounts)</i>	Quarter Ended December 31,	
	2022	2021
Net income (loss) from continuing operations attributable to ALJ	\$ 299	\$ (11,971)
Net income from discontinued operations, net of income taxes	—	2,579
Net income (loss) attributable to ALJ	\$ 299	\$ (9,392)
Income (loss) per share of common stock—basic:		
Continuing operations	\$ 0.01	\$ (0.28)
Discontinued operations	\$ —	\$ 0.06
Net income (loss) per share ⁽¹⁾	\$ 0.01	\$ (0.22)
Income (loss) per share of common stock—diluted:		
Continuing operations	\$ 0.01	\$ (0.28)
Discontinued operations	\$ —	\$ 0.05
Net income (loss) per share ⁽¹⁾	\$ 0.01	\$ (0.22)
Weighted average shares of common stock outstanding:		
Basic	36,120	42,407
Convertible debt	11,158	11,158
Warrants	1,104	874
Employee stock option grants	94	—
Diluted	48,476	54,439
Anti-dilutive shares excluded from diluted net income (loss) per share calculation:		
Employee stock option grants	—	1,410

⁽¹⁾ Amounts may not add due to rounding.

⁽²⁾ The potential reduction of interest expense attributable to ALJ’s convertible promissory notes “as if” converted is immaterial.

9. DEBT

ALJ’s components of debt and the respective interest rate at the end of each reporting period were as follows:

<i>(in thousands)</i>	December 31, 2022		September 30, 2022	
	Interest Rate	Balance	Interest Rate	Balance
Ranew's Companies Revolver	6.75%	\$ 755	6.75%	\$ 3,000
Convertible Promissory Notes	8.25	6,026	8.25	6,026
Total line of credit and term loans		\$ 6,781		\$ 9,026

Line of Credit - Ranew’s Companies

As a result of the Ranew’s Acquisition, see Notes 1 and 4, ALJ assumed a \$3.0 million line of credit (“Ranew’s Revolver”). The Ranew’s Revolver provides for a \$3.0 million revolving borrowings. The Ranew’s Revolver matures on February 28, 2023 and is secured by substantially all of Ranew’s Companies’ accounts receivable, inventories, and property and equipment. The annual interest rate is prime plus 0.5%, with an annual interest rate floor of 3.75%.

The Company currently does not anticipate extending the Ranew’s Revolver. As such, the Ranew’s Revolver was disclosed as a current liability on the consolidated balance sheet on December 31, 2022 and September 30, 2022.

Convertible Promissory Notes

In June 2021, ALJ issued convertible promissory notes in an aggregate principal amount of \$6.0 million (the “Convertible Promissory

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Notes”) to two investors, including ALJ’s Chief Executive Officer and Chairman of the Board, Jess Ravich.

The Convertible Promissory Notes accrue interest at the rate of 8.25% per year, compounded monthly with interest payable in cash quarterly in arrears on the last day of each calendar quarter on the outstanding principal balance until such principal amount is paid in full or until conversion. The principal and accrued interest owed under the Convertible Promissory Notes are convertible, at the option of the holders, into shares of the Company’s common stock, at any time prior to November 28, 2023, at a conversion price equal to the quotient of all amounts due under each Convertible Promissory Note divided by the conversion rate of \$0.54 per common share.

The Convertible Promissory Notes (i) were subordinate to the Blue Torch Term Loan and the Amended PNC Revolver prior to the Blue Torch Payoff and the termination of the Amended PNC Revolver, (ii) are unsecured, and (iii) mature on November 28, 2023, subject to extension under certain circumstances.

Financial Covenant Compliance

Ranew’s Companies was in compliance with the Ranew’s LOC debt covenants on December 31, 2022.

Estimated Future Minimum Principal Payments

As of December 31, 2022, estimated future minimum principal payments were as follows (*in thousands*):

Year Ending December 31,	Line of Credit	Convertible Promissory Notes	Total
2023	\$ 755	\$ 6,026	\$ 6,781
Total	\$ 755	\$ 6,026	\$ 6,781

10. COMMITMENTS AND CONTINGENCIES

Employment Agreements

ALJ maintains an employment agreement with its Chief Executive Officer that provides for a base salary and an annual bonus, with annual bonus amounts to be determined by the Board of Directors. The agreement also provides for involuntary termination payments, which include base salary, performance bonus, medical premiums, stock options, non-competition provisions, and other terms and conditions of employment. On December 31, 2022, the contingent termination payment related to base salary and medical premiums was \$1.8 million.

Letters of Credit

The Company had letters of credit totaling \$2.8 million outstanding on December 31, 2022, which were collateralized with deposits totaling \$2.9 million, or 103% of the total letters of credit.

Litigation, Claims, and Assessments

Marshall v. Faneuil

On July 31, 2017, plaintiff Donna Marshall (“Marshall”) filed a proposed class action lawsuit in the Superior Court of the State of California for the County of Sacramento against Faneuil and ALJ. Marshall, a previously terminated Faneuil employee, alleges various California state law employment-related claims against Faneuil. Faneuil has answered the complaint and removed the matter to the United States District Court for the Eastern District of California; however, Marshall filed a motion to remand the case back to state court, which has been granted. In connection with the above, an amended complaint was filed by certain plaintiffs to add a claim for penalties under the California Private Attorneys General Act (the “PAGA Claim”). Faneuil demurred to the PAGA Claim and it was eventually dismissed by the trial court. Following mediation, the parties negotiated a settlement agreement that was approved by the court and paid in December 2022. The settlement is immaterial to the Company’s business, consolidated financial position, results of operations or cash flows.

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Harris v. Faneuil

Lois Harris, an employee of Faneuil in Georgia, filed a collective action complaint on April 18, 2021 in the United States District Court for the Northern District of Georgia. Harris alleges, on behalf of herself and other current and former non-exempt Call Center Agent employees who received nondiscretionary bonuses for periods in which they worked overtime hours, that Faneuil violated the Fair Labor Standards Act by failing to include nondiscretionary bonuses in the regular rate of pay when calculating the overtime rate for Harris and other similarly-situated persons. Faneuil has engaged counsel to defend it in this action. The parties negotiated a settlement agreement that has been approved by the court. The settlement is immaterial to the Company's business, consolidated financial position, results of operations or cash flows.

Jesse James Pagan et. al. v. Faneuil

On April 26, 2022, a putative class action complaint was filed against Faneuil in the United States District Court for the Eastern District of Virginia. The complaint asserts claims against Faneuil for negligence, breach of an implied contract, and unjust enrichment in connection with an alleged data breach. The proposed class includes certain former employees of Faneuil who contend their personal identifiable information was compromised in the data breach. The complaint seeks damages in excess of \$5.0 million on behalf of the putative class. Faneuil has engaged counsel to defend it in this action. The parties negotiated a settlement agreement that has been approved by the court. The settlement is immaterial to the Company's business, consolidated financial position, results of operations and cash flow.

Other Litigation

The Company has been named in, and from time to time may become named in, various other lawsuits or threatened actions that are incidental to its ordinary business. Litigation is inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time-consuming, cause the Company to incur costs and expenses, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits and actions cannot be predicted with certainty. The Company concluded as of December 31, 2022, that the ultimate resolution of these matters (including the matters described above) will not have a material adverse effect on the Company's business, consolidated financial position, results of operations or cash flows.

11. LEASES

General

ALJ has operating leases for facilities, equipment, and vehicles, and finance leases for equipment. Over 95% of operating leases are for facilities. Many of the Company's facilities leases contain renewal options and rent escalation clauses. The Company subleases excess facility space. Sublease payments received were immaterial for all periods presented.

The Company determines if an arrangement is a lease at inception and recognizes a finance or operating lease liability and right-of-use asset in the Company's consolidated balance sheet. Right-of-use assets and lease liabilities for both operating and finance leases are recognized based on present value of lease payments over the lease term at commencement date.

In instances where the lease does not provide an implicit rate, the Company estimates an incremental borrowing rate ("IBR") based on the information available at commencement date to determine the present value of lease payments. ALJ does not have a published credit rating because it has no publicly traded debt. However, the Company does have several privately held debt instruments that were taken into consideration. The Company generates its IBR, using a synthetic credit rating model that estimates the likelihood (probability) of a borrower receiving a given credit rating based on relevant credit factors or predictor variables. It is based on a regression analysis using selected financial ratios of publicly traded industry comparable companies and the companies' credit ratings. The estimated IBR is then adjusted for (i) the length of the lease term, and (ii) the effect of designating specific collateral with a value equal to the unpaid lease payments. Finally, ALJ applies the estimated IBR on a lease-by-lease basis as each lease has different start and end dates and has different assumptions regarding purchase or renewal options.

For facilities leases, ALJ accounts for non-lease components such as maintenance, taxes, and insurance, separately. For equipment leases, ALJ accounts for lease and non-lease components as a single lease component. The difference between the operating lease right-of-use assets and operating lease liabilities primarily relates to adjustments for deferred rent and tenant improvement allowances.

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ROU Assets and ROU Liabilities

The following table presents the location of the ROU assets and liabilities in the consolidated balance sheets and ALJ's weighted-average lease term and discount rate:

<i>(dollars in thousands)</i>	December 31, 2022	September 30, 2022
Finance Leases:		
Property and equipment, at cost	\$ 1,575	\$ 1,575
Less accumulated amortization	(1,355)	(1,316)
Property and equipment, net	\$ 220	\$ 259
Finance lease obligations, current portion	\$ 134	\$ 332
Total finance lease liabilities	\$ 134	\$ 332
Operating Leases:		
Operating lease right-of-use assets	\$ 39,548	\$ 40,386
Operating lease obligations - current installments	\$ 3,718	\$ 3,619
Operating lease obligations, less current installments	41,326	42,302
Total operating lease obligations	\$ 45,044	\$ 45,921
Weighted average remaining lease term (years):		
Finance	0.2	0.4
Operating	10.5	10.7
Weighted average discount rate:		
Finance	6.0%	6.0%
Operating	9.7%	9.7%

Components of Lease Costs, Net

The following table presents the components of lease cost and the location of such cost in ALJ's consolidated statements of operations:

<i>(in thousands)</i>	Statement of Operations Location	Quarter Ended December 31,	
		2022	2021
Finance Leases:			
Amortization of finance lease assets	Selling, general, and administrative expense	\$ 39	\$ 221
Interest on finance lease liabilities	Interest expense	4	15
Total finance lease cost		43	236
Operating Leases:			
Operating lease cost	Selling, general, and administrative expense	1,608	1,657
Operating lease cost	Cost of revenue	—	255
Variable lease cost	Selling, general, and administrative expense	269	355
Total operating lease cost		1,877	2,267
Total lease cost, net		\$ 1,920	\$ 2,503

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Supplemental Cash Flow Information

The following table presents supplemental cash flow information related to leases:

<i>(In thousands)</i>	Quarter Ended December 31,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used for finance leases	\$ 4	\$ 15
Operating cash flows used for operating leases - continuing operations	877	1,210
Financing cash flows used for finance leases	202	202
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	—	67

Lease Maturities

Maturities of lease liabilities on December 31, 2022 were as follows *(in thousands)*:

Year Ending December 31,	Finance Leases	Operating Leases	Sublease
2023	\$ 135	\$ 7,696	\$ (771)
2024	—	7,718	(771)
2025	—	7,768	(771)
2026	—	7,895	(643)
2027	—	5,507	—
Thereafter	—	35,056	—
Total lease payments	135	71,640	(2,956)
Less: imputed interest	(1)	(26,596)	544
Total present value of lease payments	\$ 134	\$ 45,044	\$ (2,412)
Reported as of December 31, 2022			
Current	\$ 134	\$ 3,718	
Non-current	—	41,326	
Total	\$ 134	\$ 45,044	

12. EQUITY

Common Stock Activity during the Quarter Ended December 31, 2022

- Repurchased and retired 11.1 million shares of common stock. The weighted average cost was \$1.99 per share for an aggregate consideration of \$22.1 million.

Common Stock Activity during the Quarter Ended December 31, 2021

- Issued less than 0.1 million shares of common stock upon the cashless exercise of stock options.

Preferred Stock

In August 2018, ALJ shareholders approved the amendment and restatement of ALJ's Restated Certificate of Incorporation to eliminate the preferred stock and authorize the issuance of 5.0 million shares of blank check preferred stock. ALJ had no preferred stock outstanding during any period presented.

Equity Incentive Plans

In July 2016, ALJ shareholders approved ALJ's Omnibus Equity Incentive Plan ("2016 Plan"), which allows ALJ and its subsidiaries

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to grant securities of ALJ to officers, employees, directors, or consultants. ALJ believes that equity-based compensation is fundamental to attracting, motivating, and retaining highly qualified dedicated employees who have the skills and experience required to achieve business goals. Further, ALJ believes the 2016 Plan aligns the compensation of directors, officers, and employees with shareholder interest.

The 2016 Plan is administered by ALJ's Board of Directors. The maximum aggregate number of common stock shares that may be granted under the 2016 Plan is 2.0 million. The 2016 Plan generally provides for the grant of qualified or nonqualified stock options, restricted stock and restricted stock units, unrestricted stock, stock appreciation rights, performance awards and other awards. The Committee has full discretion to set the vesting criteria. The exercise price of a stock option may not be less than 100% of the fair market value of ALJ's common stock on the date of grant. The 2016 Plan prohibits the repricing of outstanding stock options without prior shareholder approval. The term of stock options granted under the 2016 Plan may not exceed ten years. Awards are subject to accelerated vesting upon a change in control in the event the acquiring company does not assume the awards. The Board may amend, alter, or discontinue the 2016 Plan, but shall obtain shareholder approval of any amendment as required by applicable law or stock exchange listing requirements. As of December 31, 2022, there were 1.6 million options available for future grant under the 2016 Plan.

Stock-Based Compensation

The following table sets forth the total stock-based compensation expense included in selling, general, and administrative expense on the statements of operations:

<i>(in thousands)</i>	Quarter Ended December 31,	
	2022	2021
Stock options	\$ 13	\$ 44
Common stock awards	—	27
Total stock-based compensation expense	\$ 13	\$ 71

On December 31, 2022, ALJ had \$0.1 million of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately 1.2 years.

Stock Option Activity and Outstanding

The following table summarizes stock option activity during the quarter ended December 31, 2022:

	Number of Options	Weighted-Average Exercise Price
Outstanding on September 30, 2022	750,000	\$ 2.20
Forfeited or expired	(340,000)	2.51
Outstanding on December 31, 2022	410,000	1.94
Vested or Expected to Vest on December 31, 2022	410,000	\$ 1.94

The following table summarizes all options outstanding and exercisable by price range as of December 31, 2022:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
\$0.88 - \$1.24	260,000	8.79	\$ 1.13	120,000	\$ 1.12
\$2.10 - \$3.33	150,000	4.61	3.33	150,000	3.33
Total	410,000	7.26	1.94	270,000	2.49

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Common Stock Awards. Through September 30, 2022, members of ALJ’s Board of Directors received a director compensation package that included an annual common stock award. In connection with such awards, ALJ recorded stock-based compensation expense of less than \$0.1 million for the quarter ended December 31, 2021. Subsequent to October 1, 2022, ALJ’s Board of Directors’ compensation package no longer includes common stock awards.

Common Stock Options and Warrants Outstanding on December 31, 2022

On December 31, 2022, ALJ had 0.4 million stock options with a weighted average exercise price of \$1.94 outstanding and warrants exercisable to purchase 1.6 million shares of common stock with a weighted average exercise price of \$0.56 outstanding.

The “intrinsic value” of options is the excess of the value of ALJ stock over the exercise price of such options. The total intrinsic value of options outstanding (of which all are vested or expected to vest) and the total intrinsic value of options exercisable was \$0.2 million on December 31, 2022.

13. INCOME TAX

ALJ recorded a benefit for income taxes from continuing operations of less than \$0.1 million and \$0.1 million for the quarter ended December 31, 2022 and 2021, respectively. ALJ’s effective tax rate from continuing operations for the quarter ended December 31, 2022 was (0.4%), which was due primarily to changes to the valuation allowance recorded against net deferred tax assets. ALJ’s effective tax rate for the quarter ended December 31, 2021 was 0.8%, which was also due primarily to changes to the valuation allowance recorded against net deferred tax assets.

ALJ recorded no discrete tax provision in continuing operations for the quarter ended December 31, 2022 and 2021.

ALJ recorded no provision for income taxes from discontinued operations for the quarter ended December 31, 2022. ALJ recorded a provision for income taxes from discontinued operations of \$0.5 million for the quarter ended December 31, 2022.

14. RANSOMWARE INCIDENT

On August 18, 2021, Faneuil detected a ransomware attack (“Security Event”) that accessed and encrypted certain files on certain servers utilized by Faneuil in the provision of its call center services.

Promptly upon detection of the Security Event, Faneuil launched an investigation, engaged legal counsel and other incident response professionals, and notified law enforcement. Faneuil immediately implemented a series of containment and remediation measures to address this situation and reinforce the security of information technology systems. Faneuil worked with industry-leading cybersecurity professionals to immediately respond to the threat, defend information technology systems, and conduct remediation.

Although Faneuil quickly and actively managed the Security Event, such event caused disruption to parts of Faneuil’s business, including certain aspects of its provision of call center services. Faneuil carries insurance, including cyber insurance, commensurate with the size and the nature of its operations. Although Faneuil actively communicated with customers and worked to minimize disruption, Faneuil cannot guarantee that customer relationships were not harmed as a result of the Security Event.

As of December 31, 2022, Faneuil had received all insurance proceeds. Faneuil does not expect to incur any additional expenses related to the Security Event.

15. REPORTABLE SEGMENTS AND GEOGRAPHIC INFORMATION

Reportable Segments

As discussed in Note 1, ALJ has organized its business along three reportable segments (Faneuil, Vistio, and Ranew’s Companies), together with a corporate group for certain support services. ALJ’s operating segments are aligned on the basis of products, services, and industry. The Chief Operating Decision Maker (“CODM”) is ALJ’s Chief Executive Officer. The CODM manages the business, allocates resources to, and assesses the performance of each operating segment using information about its revenue and segment

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adjusted EBITDA. Adjusted EBITDA is a non-GAAP measure. ALJ defines segment adjusted EBITDA as segment net income (loss) before depreciation and amortization expense, interest expense, litigation loss, recovery of litigation loss, restructuring and cost reduction initiatives, loan amendment expenses, fair value of warrants issued in connection with loan amendments, stock-based compensation, acquisition-related expenses, gain on disposal of assets, net, income taxes, loss on debt extinguishment, and other non-recurring items. Such amounts are detailed in ALJ's segment reconciliation below. All intercompany revenue and cost of revenue was eliminated during consolidation and are not presented in the tables below. The accounting policies for segment reporting are the same as for ALJ as a whole.

The following tables present ALJ's segment information for the quarters ended December 31, 2022 and 2021:

<i>(in thousands)</i>	Quarter Ended December 31, 2022				
	Faneuil	Vistio	Ranew's Companies	ALJ Corporate	Consolidated
Total revenue	\$ 28,310	\$ 567	\$ 18,771	\$ —	\$ 47,648
Segment adjusted EBITDA - attributable to ALJ	\$ 2,047	\$ (591)	\$ 2,072	\$ (2,643)	\$ 885
Depreciation and amortization					(2,823)
Provision for income taxes					2
Interest expense					(166)
Acquisition/disposition-related expenses					(500)
Restructuring and cost reduction initiatives					(414)
Stock-based compensation					(13)
Unrealized gain on investments, net, and other income					3,186
Loss on sale of assets and other					(2)
Segment adjusted EBITDA addbacks - noncontrolling interest					144
Net income attributable to ALJ					\$ 299

<i>(in thousands)</i>	Quarter Ended December 31, 2021			
	Faneuil	Vistio	ALJ Corporate	Consolidated
Total revenue	\$ 74,779	\$ —	\$ —	\$ 74,779
Segment adjusted EBITDA - continuing operations	\$ (946)	\$ (870)	\$ (1,438)	\$ (3,254)
Depreciation and amortization				(3,385)
Interest expense				(2,705)
Acquisition/disposition-related expenses				(2,388)
Restructuring and cost reduction initiatives				(75)
Security Event expenses				(168)
Provision for income taxes				101
Stock-based compensation				(71)
Loss on sale of assets and other				(26)
Net loss from continuing operations				(11,971)
Net income from discontinued operations, net of income taxes				2,579
Net loss				\$ (9,392)

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Geographic Information

Substantially all of the Company's assets were located in the United States. Substantially all of the Company's revenue was earned in the United States.