ALJ REGIONAL HOLDINGS, INC.

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Quarterly Report for the
Period Ended
December 31, 2009

ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements included in this Quarterly Report for the quarterly period ended December 31, 2009 (the "Report") regarding future financial performance and results and other statements that are not historical facts, including the statements regarding the Company's ability to continue to fund its operations and service its indebtedness, the Company's ability to improve operating efficiencies at the steel mill, the potential benefits from the Company's financial and corporate restructuring and the Company's ability to offset future income against net operating loss carryovers ("NOLs") and use of the Company's rights plan to preserve such NOLs, constitute forward-looking statements. The words "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts," 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 following: (i) cyclical changes in market supply and demand for steel, (ii) general economic conditions affecting steel consumption, (iii) U.S. or foreign trade policy affecting the price of imported steel, (iv) governmental monetary or fiscal policy, (v) increased price competition brought about by excess steelmaking capacity and imports of low priced steel, (vi) continued consolidation in the steel industry, resulting in larger producers with much greater market power to affect price and/or supply, (vii) changes in the availability or cost of steel scrap, (viii) periodic fluctuations in the availability and cost of electricity, natural gas or other utilities, (ix) the occurrence of unanticipated equipment failures and plant outages or the occurrences of extraordinary operating expenses, (x) actions by the Company's competitors, (xi) margin compression resulting from the Company's inability to pass through to its customers, price increases or surcharges, the increased cost of raw materials and supplies, (xii) loss of business from one or more major customers or end-users, (xiii) labor unrest, work stoppages and/or strikes involving the Company's workforce, those of its important suppliers or customers, or those affecting the steel industry in general, (xiv) the impact on the Company's production or upon the production or needs of its important suppliers or customers of the weather, (xv) the impact of, or changes in, environmental laws or in the application of other legal or regulatory requirements upon the Company's production processes or costs of production or upon those of its suppliers or customers, including actions by government agencies, such as the U.S. Environmental Protection Agency or the Kentucky Department for Environmental Protection, (xvi) private or governmental liability claims or litigation, or the impact of any adverse outcome of any litigation on the adequacy of the Company's reserves, the availability or adequacy of its insurance coverage, its financial well-being or its business and assets, (xvii) changes in interest rates or other borrowing costs, or the effect of existing loan covenants or restrictions upon the cost or availability of credit to fund operations or take advantage of other business opportunities, (xviii) changes in the Company's business strategies or development plans which it may adopt or which may be brought about in response to actions by its suppliers or customers, and any difficulty or inability to successfully consummate or implement as planned any planned or potential projects, acquisitions, joint ventures or strategic alliances; (xix) the impact of regulatory or other governmental permits or approvals, litigation, construction delays, cost overruns, technology risk or operational complications upon the Company's ability to complete, start-up or continue to profitably operate a project or a new business, or to complete, integrate and operate any potential acquisitions as anticipated; and (xx) changes in tax laws or regulations regarding the use and/or preservation of NOLs. The Company is also subject to general business risks, including management's success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, adverse state, federal or foreign legislation and regulation, changes in general economic factors, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters. Any forward-looking statements included in this Report are made as of the date hereof, based on information available to the Company as of the date hereof, and, subject to applicable law, the Company assumes no obligation to update any forward-looking statements.

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

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

244 Madison Avenue, PMB 358
New York, NY 10016
Phone: (212) 883-0083
Fax: (606) 929-1261

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

The Company's investor relations contact is Jess Ravich, the Chairman of the Board. Mr. Ravich can be reached at (310) 789-5741.

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

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

ITEM 2. SHARES OUTSTANDING

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

	Common Stock Period End Date			Preferred Stock Period End Date		
	December 31, 2009	September 30, 2009	September 30, 2008	December 31, 2009	September 30, 2009	September 30, 2008
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	48,665,104	48,665,104	47,133,061	374,556	374,556	374,556

ITEM 3. INTERIM FINANCIAL STATEMENTS

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

	December 31, 2009	September 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 207,066	$ 779,841
Accounts receivable, less allowance for doubtful accounts of $647,351 at December 31, 2009 and $663,021 at September 30, 2009	6,013,688	9,435,003
Inventories	17,885,751	17,726,138
Prepaid expenses and other current assets	676,255	612,883
Total current assets	24,782,760	28,553,865
Property, plant and equipment	5,107,203	5,107,203
Less accumulated depreciation and amortization	(1,899,798)	(1,799,589)
Property, plant and equipment, net	3,207,405	3,307,614
Other assets:		
Deposits	906,435	906,435
Deferred loan costs, net of amortization	509,410	621,528
Investment in Bellator	241,769	212,500
Total other assets	1,657,614	1,740,463
Total assets	$ 29,647,779	$ 33,601,942

(continued)

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

(continued)

	December 31, 2009	September 30, 2009
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	$ 5,298,445	$ 7,981,779
Accrued expenses	2,157,508	2,553,796
Accrued interest payable	725,518	2,154,788
Income taxes payable	207,966	189,140
Secured Line of Credit	3,257,151	4,524,332
Note Payable - B- Ableco	2,000,000	2,188,736
4% note payable, $1.9 million plus cumulative interest of $934,338 at December 31, 2009 and $1.9 million plus cumulative interest of $915,183 at September 30, 2009	2,834,338	2,815,183
Current portion of capital lease obligation	135,099	135,099
Liabilities related to discontinued operations	2,984,660	2,984,660
Total current liabilities	$ 19,600,685	$ 25,527,513
Non-current liabilities:		
8% subordinated term loans	29,882,226	27,857,522
Note Payable –B – Ableco	3,092,011	3,403,275
Capital lease obligation, less current portion	291,748	324,026
Series A Preferred stock of subsidiary subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share; 12,500 shares issued and outstanding at December 31, 2009 plus cumulative dividends of $7,880,137, 12,500 shares issued and outstanding at September 30, 2009 plus cumulative dividends of $7,470,548	20,380,137	19,970,548
Series A Preferred stock subject to mandatory redemption; 4% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $4.00 per share; 374,556 shares issued and outstanding at December 31, 2009 plus cumulative dividends of $730,965, 374,556 shares issued and outstanding at September 30, 2009 plus cumulative dividends of $715,861	2,229,189	2,214,085
Minority interest – related parties	2,748,094	2,781,329
Total liabilities	$ 78,224,090	$ 82,078,298
Commitments and contingencies		
Stockholders' deficiency:		
Preferred stock, $0.01 par value; authorized - 5,000,000 shares; issued and outstanding and 374,556 shares of Series A preferred stock, at December 31, 2009 and September 30, 2009 (classified in long-term liabilities as preferred stock subject to mandatory redemption)		
Common stock, $0.01 par value; authorized - 100,000,000 shares; 48,665,104 issued and outstanding at December 31, 2009 and September 30, 2009	486,651	486,651
Additional paid-in capital	283,707,046	283,653,895
Accumulated deficit	(331,940,432)	(331,787,326)
Treasury stock – 607,500 shares, at cost	(829,576)	(829,576)
Total stockholders' deficiency	(48,576,311)	(48,476,356)
Total liabilities and stockholders' deficiency	$ 29,647,779	33,601,942

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2009	**2008**
NET SALES	$21,027,068	$39,962,834
COSTS AND EXPENSES		
Cost of sales	18,328,678	36,982,766
Selling	408,952	486,781
General and administrative	1,164,452	1,187,280
Total cost of operations	19,902,082	38,656,827
Income from operations	1,124,986	1,306,007
OTHER INCOME (EXPENSE)		
Interest income	1,129	2,135
Interest expense:		
13% Series A Preferred Stock	(409,589)	(409,589)
Subordinated Notes payable	(602,557)	(462,078)
Other – Ableco/PNC	(270,383)	(721,547)
Other income (expense), net	2,289	87,261
Total other income (expense)	(1,279,111)	(1,503,818)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	(154,125)	(197,811)
Income taxes	(32,216)	0
INCOME (LOSS) BEFORE MINORITY INTEREST	(186,341)	(197,811)
MINORITY INTEREST – related parties	33,235	(620)
NET INCOME (LOSS)	(153,106)	(198,431)
NET INCOME (LOSS) PER COMMON SHARE -		
Basic	$0.00	$0.00
Dilutive	$0.00	$0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	48,665,104	47,551,243
Dilutive	49,350,149	49,954,021

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
THREE MONTHS ENDED DECEMBER 31, 2009

	Common Stock		Additional Paid-in	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balances at September 30, 2009	48,665,104	$ 486,651	$ 283,653,895	$ (331,787,326)	$ (829,576)	$ (48,476,356)
Share-based compensation:						
Restricted Stock			6,944			6,944
Stock Options			46,207			46,207
Net income (Loss)				(153,106)		(153,106)
Balances at December 31, 2009	48,665,104	$ 486,651	$ 283,707,046	$ (331,940,432)	$ (829,576)	$ (48,576,311)

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended December 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (153,106)	$ (198,431)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net change in liabilities related to discontinued operations	--	--
Depreciation and amortization	100,209	205,298
Stock-based compensation	53,151	53,994
Amortization of original issue discount on subordinated notes payable		
Amortization of deferred loan costs	112,118	--
Provision for bad debts	--	45,169
Minority interest – related parties	(33,235)	620
Changes in operating assets and liabilities:		
Decrease (increase) in -		
Accounts receivable, net	3,421,315	5,586,170
Inventories	(159,613)	13,060,016
Income taxes receivable	--	(110,000)
Prepaid expenses	(63,372)	(155,027)
Deposits	--	--
Increase (decrease) in -		
Accounts payable	(2,683,334)	(11,621,196)
Accrued expenses	(396,288)	478,021
Income taxes payable	18,826	(513,494)
Deferred rent	--	--
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	216,671	6,831,140
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital lease equipment	(29,269)	(578,921)
NET CASH USED IN INVESTING ACTIVITIES	(29,269)	(578,921)
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional borrowings under 4% notes payable	19,155	21,403
Partial repayment of 4% notes payable	--	(250,000)
Proceeds from exercise of stock options	--	24,000
Net borrowings (repayments) under equipment capital lease obligation	(32,278)	412,860
Net borrowings (repayments) under 8% notes payable	595,434	527,301
Accrued dividends (repayments) of Preferred Stock	424,693	424,694
Repayments on term loans	(500,000)	(1,250,000)
Net repayments under secured line of credit	(1,040,859)	(6,414,999)
NET CASH USED IN FINANCING ACTIVITIES	(533,855)	(6,504,741)
NET CASH USED IN OPERATING, INVESTING AND FINANCING ACTIVITIES	(346,453)	(252,522)
CASH AND CASH EQUIVALENTS		
Net decrease	(346,453)	(252,522)
Balance at beginning of period	553,519	951,803
Balance at end of period	207,066	699,281
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	0	0
Income taxes	2,798	1,120,040

Noncash investing and financing transactions:
During the three months ended December 31, 2008, the Company repurchased $500,000 of its 4% note payable, plus $213,810 of accrued interest in exchange for $250,000 of cash and 500,000 shares of common stock.

See accompanying notes to condensed consolidated financial statements.

1. Organization and Basis of Presentation

Basis of Presentation

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

Commencing March 1, 2005, the Company has included the operations of a steel mini-mill (the "Mill") owned and operated by its majority owned subsidiary, KES Acquisition Company, a Delaware corporation fka YouthStream Acquisition Corp ("KES"), in its consolidated financial statements (see Note 2 to Consolidated Financial Statements), which represents the only business segment in which the Company currently operates.

The accompanying condensed consolidated financial statements are unaudited, but in the opinion of Company management, contain all adjustments, which include normal recurring accruals, necessary to present fairly the financial position at December 31, 2009 and September 30, 2009, the results of operations for the three months ended December 31, 2009 and 2008, and the cash flows for the three months ended December 31, 2009 and 2008.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The results of operations for the three months ended December 31, 2009 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending September 30, 2010.

Liquidity and Capital Resources

The Company recognized a net loss of $153,106 for the three month period ended December 31, 2009 and generated a positive cash flow from operating activities of $216,671 for the three months ended December 31, 2009. The Company used $533,855 in financing activities and $29,269 in investing activities and had an accumulated deficit of $331.9 million and a stockholders' deficiency of $48.6 million at December 31, 2009.

On March 9, 2005, the Company completed the acquisition of the Mill. The Company utilized substantially all of its available cash resources to fund this acquisition and requires additional operating capital to fund corporate general and administrative expenses, which the Company obtains primarily through periodic tax sharing payments from KES. The Mill restarted operations in late January 2004 after being acquired by KES Holdings, LLC, a Delaware limited liability company ("KES Holdings"). For the year ended September 30, 2009, operating income was $5.5 million exclusive of interest expense and taxes. For the three months ended December 31, 2009, operating income was $1.1 million exclusive of interest expense and taxes. The Mill relies on cash flows from operations to support a secured credit facility with PNC Bank, National Association and Ableco Finance LLC to fund its operations.

On July 20, 2009, KES entered into the Third Amendment to the Financing Agreement and First Amendment to Security Agreement (the "Amendment") by and among KES, the lenders a party thereto (the "Senior Lenders"), Ableco Finance LLC, as collateral agent, and PNC Bank, National Association, as administrative agent. The Amendment modifies the Financing Agreement by and among KES, the lenders a party thereto, Ableco Finance and PNC which provides for KES' revolving line of credit and senior term loan and modifies the related Security Agreement (together, the "Credit Facility"). The Amendment provides for an extension of the final maturity date of one year to February 22, 2011. Additionally, certain financial covenants and metrics, including the EBITDAM covenant were reduced and the borrowing base multiplier was increased. The interest rate was increased by one percentage point and the quarterly principal payments under the term loan were reduced from $750,000 to $500,000 given the longer term.

On July 20, 2009, KES also entered into the Subordinated Financing Agreement by and among KES, the lenders a party thereto and Ableco, LLC as collateral and administrative agent (the "Subordinated Financing Agreement"). Pursuant to the Subordinated Financing Agreement those certain 8% Secured Subordinated Notes dated February 23, 2007 (the "Sub Notes") were exchanged for term loans in the same amounts (including interest paid-in-kind) issued pursuant to the Subordinated Financing Agreement (the "Subordinated Loans"). The Subordinated Financing Agreement did not impact the amount of KES' indebtedness with respect to the subordinated debt, but provides for certain rights and remedies in favor of the subordinated lenders, subject to the rights of the senior lenders, including a second priority security interest in substantially all of KES' assets. By comparison, the terms of the Sub Notes and related loan agreement, provided for covenants and a security interest only once the senior debt was paid in full. The subordinated lenders include Ableco, ALJ and Jess Ravich, Hal Byer and Scott Fritz, all of whom serve on ALJ's board. Ableco required that the Sub Notes be exchanged as a condition to the modifications to the Credit Facility.

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the Credit Facility will be adequate to fund its operations through December 31, 2010. However, to the extent the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

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

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding company, whose primary asset is a majority share of the outstanding common stock and 100% of the voting securities of KES, the owner and operator of the Mill, which manufactures and sells steel bar flats.

Cash and Cash Equivalents

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

Accounts Receivable

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

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

Inventory

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for routine maintenance and repairs are charged to expense as incurred. Expenditures for equipment renewals and improvements, which extend the useful life of an asset, are capitalized. Certain equipment held under capital lease is classified as property, plant and equipment, and the related obligation is recorded as a liability. Lease amortization is included in depreciation expense.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings and improvements. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

Revenue Recognition

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

Stock-Based Compensation

On June 30, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), a revision to SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R superseded APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amended SFAS No. 95, "Statement of Cash Flows." SFAS No. 123R requires that the Company measure the cost of employee services received in exchange for equity awards based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards.

Under this method, the Company began recognizing compensation cost for equity-based compensation for all new or modified grants after the date of adoption. The pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition. In addition, the Company will recognize the unvested portion of the grant date fair value of awards issued prior to adoption based on the fair values previously calculated for disclosure purposes over the remaining vesting period of the outstanding options and warrants. Accordingly, the Company recognizes compensation cost for equity-based compensation for all new or modified grants issued after June 30, 2006.

Pro forma information regarding net loss per share is required by SFAS No. 123 as if the Company had accounted for its employee stock options under the fair value method of such statement.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to operations over the vesting period of the options or the expected period of benefit.

Income Taxes

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

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company's adoption of FIN 48 resulted in no material impact to the financial statements.

Concentrations

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

For the three month period ending December 31, 2009, the Company had two suppliers that accounted for approximately 52% of raw materials purchases, of which approximately $1.8 million was included in accounts payable at December 31, 2009. For the three month period ending December 31, 2009, the Company had one customer that accounted for approximately 15% of net sales, of which approximately $1.8 million was included in accounts receivable at December 31, 2009.

Earnings Per Share

The Company calculates net income (loss) per share as required by SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share excludes any dilution for common stock equivalents and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the relevant period. Diluted earnings per share reflects the potential dilution that could occur if options or other securities or contracts entitling the holder to acquire shares of common stock of the Company were exercised or converted, resulting in the issuance of additional shares of common stock that would then share in earnings. However, diluted loss per share does not consider such dilution as its effect would be anti-dilutive.

The following table summarizes the basic and dilutive weighted average shares for the three months ending December 31, 2009 and 2008:

	Three Months Ended December 31,	
	2009	**2008**
Weighted average shares outstanding, basic	48,655,104	47,551,243
Dilutive effect of:		
Options to purchase common stock	685,045	1,902,778
Warrants to purchase common stock	--	500,000
Weighted average shares outstanding, diluted	49,350,149	49,954,021

3. Acquisition of Steel Mini-Mill

In September 2003, ALJ invested $125,000 to acquire a 1.00% membership interest in KES Holdings, LLC, a Delaware limited liability company ("KES Holdings"), which was formed to acquire certain assets of Kentucky Electric Steel, Inc., a Delaware corporation, consisting of the Mill pursuant to Section 363 of the United States Bankruptcy Code through its subsidiary, KES Acquisition Company, LLC, a Delaware limited liability company ("KES Acquisition"). The Mill had ceased production on or about December 16, 2002 and its prior owner had filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on February 5, 2003. The Mill had been in operation for approximately forty years and was refurbished by KES Acquisition subsequent to its acquisition. The refurbished Mill has been generating revenues since late January 2004.

On March 9, 2005, ALJ completed the acquisition of KES Acquisition (the "Acquisition"), which was deemed effective March 1, 2005. Pursuant to definitive agreements executed with KES Holdings and Atacama Capital Holdings, Ltd., a British Virgin Islands company ("Atacama," and together with KES Holdings, collectively, the "Sellers"), ALJ, through its newly-formed subsidiary, YouthStream Acquisition Corp., a Delaware corporation ("Acquisition Corp."), acquired 100% of the membership interests of KES Acquisition by acquiring (i) a 37.45% membership interest from KES Holdings and (ii) all of the capital stock of Atacama KES Holding Corporation, a Delaware corporation and wholly-owned subsidiary of Atacama ("Atacama KES"), the owner of the remaining 62.55% membership interest in KES Acquisition. As consideration for the Acquisition, Acquisition Corp. issued to the Sellers (i) $40,000,000 in promissory notes (the "Subordinated Notes"), (ii) 25,000 shares of 13% Series A Non-Convertible Preferred Stock with an aggregate liquidation value of $25,000,000 (the "13% Series A Preferred Stock") and (iii) 15,992 shares (comprising 100%) of its authorized shares of Series B Non-Voting Common Stock. With respect to the $65,000,000 of purchase consideration, $19,000,000 of the Subordinated Notes, $10,000,000 of the 13% Series A Preferred Stock and 5,997 shares of Series B Common Stock were issued to KES Holdings, and $21,000,000 of the Subordinated Notes, $15,000,000 of the 13% Series A Preferred Stock and 9,995 shares of Series B Common Stock was issued to Atacama. ALJ also contributed an aggregate of $500,000 of cash to Acquisition Corp. as consideration for the issuance by Acquisition Corp. of 100% of its Series A Voting Common Stock to ALJ.

As a result of these transactions, ALJ owned 80.01% of the common stock, and 100% of the voting stock, of Acquisition Corp. The remaining 19.99% common stock interest in Acquisition Corp. was owned 62.55% by Atacama and 37.45% by KES Holdings. ALJ has consolidated the operations of the Mill through its ownership of KES Acquisition commencing March 1, 2005. As a result of the Acquisition, the Company's financial statements for periods ending after March 1, 2005 are materially different from and are not comparable to its financial statements prior to that date.

Subsequent to the Acquisition, the management of the Mill continued unchanged. The Acquisition did not result in any change in the Mill's business operations or financial condition.

2007 Restructuring

On February 23, 2007 (the "Restructuring Date"), ALJ effected a financial and corporate restructuring designed to reduce outstanding obligations and streamline corporate operations. On the Restructuring Date, Atacama Holdings and KES Acquisition were merged into Acquisition Corp. (the "Merger") with Acquisition Corp., which immediately changed its name to KES Acquisition Company (KES), surviving the Merger (the "Restructuring"). As a result of the Merger, ALJ now has only one operating subsidiary, KES, in which it owns 80.21 % of the common stock and 100% of the voting stock.

Also, on the Restructuring Date, KES entered into a Financing Agreement providing for a new revolving line of credit (the "Revolver") and two new term loans (collectively, the "Term Loan" and together with the

Revolver, the "Credit Facility") with Ableco Finance LLC ("Ableco") and PNC Bank, National Association ("PNC", and together with Ableco, the "Senior Lenders"). The Revolver is an asset-based loan with a maximum availability of $23,000,000 and a term of 3 years. The Term Loan is a $19,000,000 loan, has a maturity of February 23, 2010 and amortizes at $1,000,000 per quarter for the first four quarters and $1,250,000 per quarter thereafter. Both the Revolver and the Term Loan bear interest at variable rates based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. In addition, the Credit Facility contains financial covenants requiring KES to maintain certain levels of EBITDAM (earnings before interest, taxes, depreciation, amortization and incentive-based management fees), fixed charge coverages and leverage ratios.

As part of the Restructuring, KES repurchased, for $18,000,000, $18,000,000 in principal amount of the Subordinated Notes plus certain accrued interest thereon, including certain notes previously issued to reflect a portion of such interest which was unpaid (the "Repurchased Notes") and restructured the remaining $22,000,000 in Subordinated Notes (the "Remaining Notes") and the accrued interest thereon (including certain notes previously issued to reflect a portion of such interest that was unpaid), to eliminate scheduled principal payments, extend the final maturity until 2017, capitalize the accrued but unpaid interest on such notes, and provide that in the future KES has the ability to capitalize, in its discretion, future interest payments on the Subordinated Notes. Therefore, upon the purchase of the Repurchased Notes, KES recognized a gain of $3.0 million and as of the Restructuring Date, there were $25,665,441 in principal amount of Remaining Notes outstanding.

On the Restructuring Date, KES also repurchased $12,500,000 of its 13% Series A Preferred Stock and accrued dividends thereon for $1,250,000. The Company has recorded the $11,250,000 difference as a credit to additional paid in capital and recognized a gain of approximately $3.2 million related to accrued dividends forgiven. The remaining Series A Preferred Stock continues to have a 13% cumulative dividend. The 13% Series A Preferred Stock contains a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and is redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of KES' full and complete repayment of the Remaining Notes. As of December 31, 2009, the balance outstanding on the 13% Series A Preferred Stock was $12,500,000 and related accrued dividends payable were $7,880,137.

Pursuant to the terms of the Credit Facility, ALJ is currently limited in its ability to receive cash distributions from KES but is permitted to receive tax sharing payments as described below. For taxable periods beginning after February 28, 2005, KES has been included in the consolidated federal income tax return filed by ALJ as the common parent. KES has entered into a Tax Sharing Agreement with ALJ pursuant to which it has agreed to pay ALJ an amount equal to 50% of its respective "separate company tax liability" (as such term is defined in the Tax Sharing Agreement). ALJ has approximately $276 million in net operating loss carryovers currently available to offset the consolidated federal taxable income of the affiliated group in the future. As of December 31, 2009, the Company had accrued $146,502 of tax sharing payments related to the fiscal year ending September 30, 2010.

Substantially all of the Company's assets are owned by KES, its consolidated subsidiary. As a result of various contractual restrictions contained in various financing agreements (as previously described) and documents relating to the Acquisition, there are limits on the Company's ability to transfer assets from KES Acquisition Co. to ALJ, whether in the form of loans and advances, cash dividends, tax-sharing payments, or otherwise, without notice to and/or consent of one or more third parties. Additionally, all of KES Acquisition Co.'s assets are pledged to secure its obligations under the Credit Facility and upon repayment of the Credit Facility and Subordinated Financing Agreement (defined below).

Since the acquisition of the Mill by the Sellers, the Mill has been operating under a Management Services Agreement (the "Pinnacle Agreement") with Pinnacle Steel, LLC ("Pinnacle"). The principals of Pinnacle have significant experience and expertise in the steel industry. As part of the restructuring, the Pinnacle Agreement was extended through October 2013, subject to earlier termination based on the financial performance of the Mill. Pinnacle is entitled to a monthly management fee and a management incentive fee as provided in the Pinnacle Agreement.

November 2007 Repurchase Transaction

On November 29, 2007, ALJ repurchased $600,000 of aggregate principal amount and all related accrued interest of its outstanding 4% Subordinated Promissory Notes dated January 24, 2003 in exchange for $300,000 in cash and 600,000 shares of its common stock. In addition, ALJ repurchased 187,500 shares of its 4% Series A Preferred Stock, with an aggregate liquidation value of $750,000, plus accrued but unpaid dividends, from certain affiliated parties in exchange for $300,000 in cash and 450,000 shares of its common stock.

May 2008 Repurchase Transaction

On May 6, 2008, ALJ exchanged 437,944 shares of the Company's outstanding 4% Series A Preferred Stock, with a value of $1,751,776 plus accrued dividends of $733,892 for 4,957,515 shares of the Company's common stock at a value of $0.50 per share. The value of the stock as of the date of the exchange was $0.47 per share.

November 2008 Repurchase Transaction

On November 10, 2008, ALJ repurchased a portion of the outstanding 4% Subordinated Restated Promissory Note dated January 24, 2003. The face value of the portion of the Note repurchased was $713,810, comprised of $500,000 in principal and $213,810 of accrued interest. The purchase price paid for the repurchase was $365,000, which is comprised of $250,000 in cash and 500,000 shares of the Company's common stock (valued at $115,000 or $0.23 per share based on the closing price of the Company's common stock as quoted on the Pink Sheets on November 10, 2008).

July 2009 Refinancing Transaction

On July 20, 2009, KES entered into the Third Amendment to the Financing Agreement and First Amendment to Security Agreement (the "Amendment") by and among KES, the lenders a party thereto (the "Senior Lenders"), Ableco Finance LLC, as collateral agent, and PNC Bank, National Association, as administrative agent. The Amendment modifies the Financing Agreement by and among KES, the lenders a party thereto, Ableco Finance and PNC which provides for KES' revolving line of credit and senior term loan and modifies the related Security Agreement (together, the "Credit Facility"). The Amendment provides for an extension of the final maturity date of one year to February 22, 2011. Additionally, certain financial covenants and metrics, including the EBITDAM covenant were reduced and the borrowing base multiplier was increased. The interest rate was increased by one percentage point and the quarterly principal payments under the term loan were reduced from $750,000 to $500,000 given the longer term.

On July 20, 2009, KES also entered into the Subordinated Financing Agreement by and among KES, the lenders a party thereto and Ableco, LLC as collateral and administrative agent (the "Subordinated Financing Agreement"). Pursuant to the Subordinated Financing Agreement the Remaining Notes were exchanged for term loans in the same amounts (including interest paid-in-kind) issued pursuant to the Subordinated Financing Agreement (the "Subordinated Loans"). The Subordinated Financing Agreement did not impact the amount of KES' indebtedness with respect to the subordinated debt, but provides for certain rights and remedies in favor of the subordinated lenders, subject to the rights of the senior lenders, including a second priority security interest in substantially all of KES' assets. By comparison, the terms of the Remaining Notes and related loan agreement, provided for covenants and a security interest only once the senior debt was paid in full. The subordinated lenders include Ableco, ALJ and Jess Ravich, Hal Byer and Scott Fritz, all of whom serve on the Board. Ableco required that the Remaining Notes be exchanged as a condition to the modifications to the Credit Facility.

Stockholder Rights Plan

On May 13, 2009, the Company adopted a stockholder rights plan (the "Rights Plan") designed to preserve the value of certain tax assets primarily associated with its NOLs and built in losses under Section 382 of the Internal Revenue Code ("Section 382").

The Company has approximately $276 million in net operating losses and the use of such losses to offset federal income tax would be limited, if the Company experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company's stock by value increase their collective ownership of the aggregate amount of the Company's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

In connection with the Rights Plan, the Company has declared a dividend of one preferred share purchase right for each share of its common stock outstanding as of the close of business on May 21, 2009. Pursuant to the Rights Plan, any stockholder or group that acquires beneficial ownership of 4.9 percent or more of the Company's outstanding stock (an "Acquiring Person") without the approval of the Board would be subjected to significant dilution of its holdings. Any existing stockholder holding 4.9% or more of the Company's stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of the Company; provided, however, that existing stockholders actually known to the Company to hold 4.9% or more of its stock as of April 30, 2009 will be permitted to purchase up to an additional 5% of the Company's stock without triggering the Rights Plan. In addition, in its discretion, the Board may exempt certain persons whose acquisition of securities is determined by the Board not to jeopardize the Company's deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board. The Rights Plan was approved by the Company's stockholders at the annual meeting of stockholders on June 4, 2009.

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

Related Party Transactions

Mr. Ravich, who is the Chairman of the Board of the Company and a director of KES Acquisition Co., holds Subordinated Notes under the Subordinated Financing Agreement, Series B Common Stock of KES, and, either directly or through his family trusts, 7,244,839 shares of ALJ's common stock, 1,222,222 shares issuable upon exercise of currently vested options, and 69,444 of vested restricted shares as of December 31, 2009. Mr. Ravich and a certain trust for the benefit of members of his family (the "Guarantors") also personally guaranteed $5 million of the Term Loan, in consideration for payments to be made by KES Acquisition Co. The terms of the guaranty by Mr. Ravich were approved by the independent members of the Board.

Robert Scott Fritz and Hal G. Byer, both directors of ALJ, are holders of $292,594 and $161,055, respectively, of the aggregate principal amount of the Subordinated Notes and are holders of shares of Series B common stock of KES Acquisition Co. Messrs. Byer and Fritz are lenders under the Subordinated Financing Agreement. Messrs. Fritz and Byer and Jon Diamond, a former director of ALJ, each own 62,500 shares of ALJ Regional's Series A Preferred Stock.

On May 6, 2008, the Board approved an additional stock option grant to Mr. Ravich to purchase 2,000,000 shares of common stock for his services as Chairman of the Board of Directors. The option was issued at a fair market value of $0.40 per share and vests in equal monthly installments over a three-year period. The option is subject to immediate acceleration in full upon a change in control of the Company. The Company will recognize non-compensation expense of $483,200 on a pro rata basis over the next three years. Directors may be reimbursed for any out-of-pocket expenses they incur in the performance of their responsibilities for us.

On June 20, 2008, the Board approved a director compensation program providing for an annual payment of $12,500 in cash and $12,500 in stock to each director, to be granted at the current fair market value. On June 20, 2008, pursuant to this program, each member of the Board received a restricted stock grant of

21,186 shares of common stock at the fair market value of $0.59 per share on that date. On June 4, 2009, pursuant to the program, each member of the Board received a restricted stock grant of 69,444 shares of common stock at the fair market value of $0.18 per share on that date. Mr. Byer exchanged his grants of 69,444 restricted shares for Mr. Ravich's $12,500 cash compensation. The restricted stock vests monthly and will become fully vested after 12 months. Vesting is contingent upon continued service on the Board. The Company will recognize non-cash compensation expense of approximately $28,000 on a pro rata basis over the next twelve months for the June 4, 2009 restricted stock grants.

In June 2008, the Board also issued to Robert Christ, the Company's Chief Financial Officer, options to purchase an aggregate of 200,000 shares of common stock, exercisable at the fair market value of $0.59 per share, vesting on a pro rata basis over a period of three years. The Company will recognize a non-compensation expense of $71,000 on a pro rata basis over the next three years.

As part of the restructuring as discussed above, the Company entered into a Fee and Reimbursement Agreement dated February 23, 2007 with Guarantors. Pursuant to the agreement, the Company has agreed to pay the Guarantors an annual fee in exchange for the Guarantors guaranteeing certain obligations of the Company under the New Credit Facility. The fee is equal to 5% of the maximum guaranteed amount and is due January 15 of the year following the Company's year end. As of December 31, 2009 and 2008, the Company had accrued balances of $250,000 and $250,000, respectively, related to the fee agreement which is included in accrued expenses in the balance sheet.

4. Inventories

Inventories are comprised of the following at December 31, 2009 and September 30, 2009:

	December 31, 2009 Unaudited	September 30, 2009 Unaudited
Raw materials	$ 3,543,575	$ 4,104,768
Semi-finished goods	8,467,871	8,967,882
Finished goods	5,874,305	4,653,488
Total	$ 17,885,751	$ 17,726,138

Inventories are comprised of raw materials, semi-finished goods and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs.

5. Notes Payable and Long-Term Debt

Credit Facility

Effective February 23, 2007, KES entered into a Financing Agreement for a Credit Facility with Senior Lenders. The Credit Facility provides for a Revolver with a maximum availability of $23 million and provided for a Term Loan in an original amount of $19 million. As of December 31, 2009, the outstanding term loan portion of the Credit Facility was $5.1 million and the Revolver was $3.3 million. On July 20, 2009, KES and the Senior Lenders extended the maturity date of the Revolver and the Term Loan to February 22, 2011. Additionally, KES and the Senior Lenders agreed to reduce the quarterly payment amount under the Term Loan to $500,000 given the extended maturity date. Both the Revolver and the Term Loan have variable interest rates based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. In addition, the Credit Facility contains financial covenants requiring KES to maintain certain levels of EBITDAM (earnings before interest, taxes, depreciation, amortization and management incentive fees), fixed charge coverage and leverage ratios.

On July 20, 2009, KES also entered into the Subordinated Financing Agreement, pursuant to which the Remaining Notes were exchanged for the Subordinated Loans. The Subordinated Financing Agreement did not impact the amount of KES' indebtedness with respect to the subordinated debt, but provides for

certain rights and remedies in favor of the subordinated lenders, subject to the rights of the senior lenders, including a second priority security interest in substantially all of KES' assets. By comparison, the terms of the Remaining Notes and related loan agreement, provided for covenants and a security interest only once the senior debt was paid in full. The subordinated lenders include Ableco, ALJ and Jess Ravich, Hal Byer and Scott Fritz, all of whom serve on ALJ's board. Ableco required that the Remaining Notes be exchanged as a condition to the modifications to the Credit Facility.

6. Commitments and Contingencies

Operating Commitments

The Mill has been operating under the Pinnacle Agreement, which is effective through October 31, 2013. Pursuant to the Pinnacle Agreement, Pinnacle provides, at its expense, employees to serve as the General Manager of the Mill and provide oversight and general management of the operations of the Mill, in exchange for an annual fee of $700,000, payable monthly, and bonus payments equal to 16.6% of defined earnings before interest, taxes, depreciation and amortization in excess of $6 million for the fiscal years ending September 30, 2007 and thereafter. As of December 31, 2009, management had accrued approximately $437,000 for management fees to Pinnacle.

The Company has various short-term commitments for the purchase of materials, inventory, supplies and energy arising in the ordinary course of business which aggregated approximately $3.1 and $4.1 million at December 31, 2009 and September 30, 2009, respectively.

7. Income Taxes

The Company accrued $32,216 for federal and state income taxes due as of December 31, 2009. The income tax provision was computed based on the projected AMT due for the year, after utilization of the Company's net operating loss carry-forwards as described below, plus state taxes due.

The Company has net operating loss carry-forwards for federal income tax purposes of approximately $276 million that expire from 2019 through 2025. The use of approximately $36 million of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code").

The Company is subject to periodic audits by federal, state and local tax authorities for various tax liabilities incurred in prior periods from the parent entity and its subsidiaries, including previously discontinued businesses. The amount of any tax assessments and penalties may be material and may negatively impact the Company's operations. Given the uncertainty in the amount and the difficulty in estimating the probability of the assessments arising from future tax audits, the Company has not made any accruals for such tax contingencies.

For taxable periods beginning after February 28, 2005, KES (see Note 2 to Consolidated Financial Statements) is included in the consolidated federal income tax return filed by ALJ as common parent. KES has entered into a Tax Sharing Agreement with ALJ, pursuant to which it has agreed to pay ALJ an amount equal to 50% of its "separate company tax liability," subject to compliance with the Credit Facility. The term "separate company tax liability" is defined as the amount, if any, of the federal income tax liability (including, without limitation, liability for any penalty, fine, additions to tax, interest, minimum tax and other items applicable to such subsidiary in connection with the determination of the subsidiary's tax liability), which such subsidiary would have incurred if its federal income tax liability for the periods during which it is includible in a consolidated federal income tax return with ALJ were determined generally in the same manner in which its separate return liability would have been calculated under Section 1552(a)(2) of the Code.

8. Share-based Compensation and Stock Options

The Company determines the fair value of all stock-based compensation, including stock options and warrants by using the Black-Scholes option-pricing model. Included in the selling, general and administrative expenses for the three month-period ending December 31, 2009, the Company recognized share-based share compensation expense of $6,944 related to the issuance of restricted stock in a prior period and $46,207 related to the issuance of stock options in a prior period.

FASB Statement No. 123(R) requires all share-based payments to employees be recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. The Company computed volatility of 126% for the restricted stock granted during the year ended September 30, 2009 and 94% for the options and restricted stock granted during the year ended September 30, 2008. Volatility was computed over the most recent period commensurate with the expected term of the options and restricted stock. The risk-free interest rate of 0.47% was used for the restricted stock granted during the year ended September 30, 2009 and 3.08% for the restricted stock granted and options issued during the year ending September 30, 2008, which was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options and restricted stock. The Company has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly, uses an expected dividend yield of zero.

The summary of stock option activity for the three months ending December 31, 2009 is as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term
Balance outstanding as of September 30, 2009	3,150,000	$0.35	9.1 years
Granted	0	$0.00	
Exercised	0	$0.00	
Balance outstanding as of December 31, 2009	3,150,000	$0.35	9.1 years
Options vested as of December 31, 2009	2,288,889	$0.32	8.8 years

9. Subsequent Events

None.

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

General Overview

Commencing March 1, 2005, the Company has included the operations of the Mill, which represents the only business segment in which the Company currently operates, in its consolidated financial statements. The Company completed the acquisition of the Mill on March 9, 2005 (see Note 3 to Consolidated Financial Statements).

Critical Accounting Policies and Estimates

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

The Company believes that of its significant accounting policies, which are described in Note 2 to the accompanying consolidated financial statements and in the Company's annual report for the year ended September 30, 2009, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies the Company believes are the most critical to aid in fully understanding and evaluating the Company's consolidated financial condition and results of operations.

Revenue Recognition

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

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance. Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness, and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventories

Inventories are comprised of raw materials, semi-finished goods and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets, scrap metal, and finished goods is adjusted monthly.

Income Taxes

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

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. In the event the Company was to determine that it would be able to realize its deferred tax assets in the future in excess of its recorded amount, an adjustment to the deferred tax assets would be credited to operations in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to operations in the period such determination was made.

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company's adoption of FIN 48 resulted in no material impact to the financial statements.

Results of Operations for the Three Months Ending December 31, 2009 and 2008

The following table sets forth selected unaudited consolidated statements of operations data for each of the periods indicated as a percentage of total revenues for the respective periods.

	Three Months Ended December 31,			
	2009		**2008**	
Net Sales	$21,027,068	100%	$39,962,834	100%
Cost of sales	18,328,678	87%	36,982,766	93%
Gross Profit	2,698,390	13%	2,980,068	7%
Selling	408,952	2%	486,781	1%
General and administrative	1,164,452	6%	1,187,280	3%
Income from operations	1,124,986	5%	1,306,007	4%

For the three months ended December 31, 2009 and 2008

Net Sales

Net sales for the three months ending December 31, 2009 were $21.0 million, a decrease of $18.9 million, or 47%, over net sales of $39.9 million for the three months ending December 31, 2008. The decrease in net sales was primarily attributable to a decrease in tons invoiced of 13,536 tons, or 34%, and a decrease of 20% in the average selling price per ton.

Cost of Sales

Cost of sales for the three months ending December 31, 2009 were $18.3 million, a decrease of $18.7 million, or 50%, over cost of sales of $37.0 million for the three months ending December 31, 2008. The decrease in cost of sales was primarily due to a decrease of $17.9 million in materials, including scrap, alloys and billets and $800,000 of freight, due to lower freight volumes.

Gross Profit

Gross profit for the three months ending December 31, 2009 was $2.7 million, a decrease of $281,678, or 9%, over gross profit of $3.0 million for the three months ending December 31, 2008. Gross profit as percentage of sales increased for the three months ending December 31, 2009 to 13% as compared to the gross profit as a percentage of sales of 7% for the three months ending December 31, 2008. The increase in gross profit as a percentage of sales was primarily attributable to control of costs.

Selling Expenses

Selling expenses for the three months ending December 31, 2009 were $408,952, a decrease of $77,829, or 9% over selling expenses for the three months ending December 31, 2008 of $486,781. Selling expenses primarily decreased as a result of lower commissions related to lower sales revenue.

General and Administrative Expenses

General and administrative expenses for the three months ending December 31, 2009 were $1.2 million, which were consistent with general and administrative expenses for the three months ending December 31, 2008 of $1.2 million.

Liquidity and Capital Resources – December 31, 2009

The Company recognized a net loss of $153,106 for the three month period ended December 31, 2009 and generated a positive cash flow from operating activities of $216,671 for the three months ended December 31, 2009. The Company used $533,855 in financing activities and $29,269 in investing activities and had an accumulated deficit of $331.9 million and a stockholders' deficiency of $48.6 million at December 31, 2009.

For the year ended September 30, 2009, operating income was $5.5 million exclusive of interest expense and taxes. For the three months ended December 31, 2009, operating income was $1.1 million exclusive of interest expense and taxes. The Mill relies on cash flows from operations to support a secured credit facility with PNC Bank and Ableco Finance LLC to fund its operations.

On July 20, 2009, KES and the Senior Lenders extended the maturity date of the Revolver and the Term Loan to February 22, 2011. Additionally, KES and the Senior Lenders agreed to reduce the quarterly payment amount under the Term Loan to $500,000 given the extended maturity date. Both the Revolver and the Term Loan have variable interest rates based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. In addition, the Credit Facility contains financial covenants requiring KES to maintain certain levels of EBITDAM (earnings before interest, taxes, depreciation, amortization and management incentive fees), fixed charge coverage and leverage ratios.

On July 20, 2009, KES also entered into the Subordinated Financing Agreement. Pursuant to the Subordinated Financing Agreement the Remaining Notes were exchanged for the Subordinated Loans. The Subordinated Financing Agreement did not impact the amount of KES' indebtedness with respect to the subordinated debt, but provides for certain rights and remedies in favor of the subordinated lenders, subject to the rights of the senior lenders, including a second priority security interest in substantially all of KES' assets. By comparison, the terms of the Remaining Notes and related loan agreement, provided for covenants and a security interest only once the senior debt was paid in full. The subordinated lenders include Ableco, ALJ and Jess Ravich, Hal Byer and Scott Fritz, all of whom serve on ALJ's board. Ableco required that the Remaining Notes be exchanged as a condition to the modifications to the Credit Facility.

As of December 31, 2009, the balance outstanding on the Credit Facility was $8.4 million ($3.3 million under the Revolver and an aggregate of $5.1 million under the Term Loan).

At December 31, 2009, KES was in compliance with all financial covenants under the Credit Facility based on its financial statements.

To the extent that the Mill generates taxable income in the future, the Tax Sharing Agreement with KES will generate cash payments to ALJ equal to 50% of its "separate company tax liability," subject to compliance with the Credit Facility. The tax sharing payment due to ALJ for the three months ending December 31, 2009 was $146,502. ALJ has approximately $276 million of federal net operating loss carryovers currently available to offset any federal income tax liability of KES in subsequent periods. ALJ expects that its federal net operating loss carryovers will be sufficient to absorb most of any future federal income tax liability of KES.

The long-term economic viability of the Mill and its ability to fund its operations and debt service requirements, including maintaining compliance with various debt covenants and servicing the interest and principal obligations under the Credit Facility and Subordinated Financing Agreement and the dividends and redemption features on the Series A Preferred Stock issued in connection with the acquisition of the Mill, is dependent on various internal and external factors, including the Mill's ability to operate on a sustained basis at 45% or more of its annual capacity of 200,000 tons per year, as currently configured. To the extent that the Mill is not able to maintain an appropriate operating threshold, the ability of the Mill to generate sufficient cash flows to fund its operations and debt service requirements and maintain compliance with various debt covenants may be impaired.

Operating Activities

During the three months ending December 31, 2009, the Company generated $216,671 from operating activities, primarily attributable to a decrease in accounts receivable of $3.4 million partially offset by an decrease in accounts payable of $2.7 million.

Investing Activities

For the three months ending December 31, 2009, the Company used $29,269 in investing activities related to an additional investment in Bellator Sports Worldwide, LLC, an early development stage Company specialized in the promotion, marketing and development of Mixed Martial Arts.

Financing Activities

For the three months ending December 31, 2009, the Company used $533,855 in financing activities primarily attributable to repayments of $1.0 million on the Revolver and $500,000 on the Term Loan, partially offset by increases in accrued interest on the 8% Subordinated Notes of $595,434 and Preferred Stock of $424,693.

Principal Commitments

At December 31, 2009, the Company's principal commitments consisted of the following obligations:

	Payments Due by 12 Month Periods Ending December 31, (in thousands)					
Contractual cash obligations	**Total**	**2010**	**2011**	**2012**	**2013**	**Thereafter**
4% notes payable	$ 2,834	$ ---	$ 2,834	$ ---	$ ---	$ ---
8% subordinated term loans	30,608	---	---	---	---	30,608
Term Loan – B – Ableco	5,092	2,000	3,092	---	---	---
Revolver – PNC	3,257	---	3,257	---	---	---
Operating leases	3,213	724	724	724	724	317
Capital lease obligation	427	135	135	135	22	---
Management services agreement	2,683	700	700	700	583	---
4% Series A Preferred Stock subject to mandatory redemption	2,229	2,229	---	---	---	---
13% Series A Preferred Stock of subsidiary subject to mandatory redemption, including accrued dividends	20,380	---	---	---	---	20,380
Total contractual cash obligations	$ 70,723	$ 5,788	$ 10,742	$ 1,559	$ 1,329	$ 51,305

At December 31, 2009, the Company did not have any material commitments for capital expenditures.

At December 31, 2009, the Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $3.1 million.

Off-Balance Sheet Arrangements

The Company does not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at December 31, 2009.

ITEM 5. LEGAL PROCEEDINGS

From time to time the Company may be involved in litigation arising from its activities. Presently the Company is not involved in any material litigation.

ITEM 6. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 7. OTHER INFORMATION

None.

RISK FACTORS

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

Risks Related to Our Business

Payments under our Tax Sharing Agreement are uncertain.

For taxable periods beginning after February 28, 2005, our subsidiary, KES is included in the consolidated federal income tax return filed by ALJ as the common parent. KES has entered into a Tax Sharing Agreement with ALJ, pursuant to which it has agreed to pay ALJ an amount equal to 50% of its "separate company tax liability" (as defined in the agreement), subject to compliance with KES' Credit Facility. Periodic tax sharing payments from KES are currently the sole source of funds distributed to ALJ from the operations of the Mill. The tax sharing payments are necessary to fund corporate overhead at the ALJ level and the receipt of such payments is dependent upon the availability of sufficient cash resources from Mill operations. There can be no assurance that there will be sufficient levels of cash resources generated from Mill operations to support tax sharing payments or to pay our operating expenses.

Our industry is cyclical and prolonged economic declines could have a material adverse effect on our business.

Demand for most of our products is cyclical in nature and sensitive to general economic conditions. Our business supports cyclical industries such as commercial construction, energy, and manufacturing all of which have been adversely impacted by the recent economic downturn. As a result, our results of operations and cash flows may suffer. Because steel mills generally have high fixed costs, reduced volumes result in operating inefficiencies. A further decline in the U.S. economy could materially adversely affect our business, results of operations and financial condition and cash flows.

Our level of production and our sales and earnings are subject to significant fluctuations.

The U.S. steel industry experienced a significant economic downturn beginning in late 2008, which continued through 2009. This decline led to deterioration in backlog and, therefore, overcapacity in producing mills worldwide.

The price of steel and steel products may fluctuate significantly due to many factors beyond our control. Such fluctuation would directly affect our levels of production, sales and earnings. The domestic steel industry has been highly cyclical in nature, influenced by a combination of factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, levels of steel imports and applicable tariffs. The demand for steel products is generally affected by macroeconomic fluctuations in the U.S. and the global economies in which steel companies sell their products. We have experienced a drop in demand for our products as a result of the current economic downturn and further economic decline, stagnation, or currency fluctuations could further decrease the demand for products or increase the amount of imports of steel into the U.S., which could negatively impact our sales, margins and profitability. In addition, prolonged weakness in any industries in which we sell our products could materially adversely affect our results of operations and cash flows.

Our business requires maintenance expenditures and may require capital investment which we may be unable to provide.

We require capital for, among other purposes, maintaining the condition of KES' existing equipment and maintaining compliance with environmental laws and regulations. From time to time, KES may also require capital to acquire new equipment. To the extent that cash generated internally and cash available under our Credit Facility is not sufficient to fund capital requirements, KES will require additional debt and/or equity financing. However, this type of financing may not be available or, if available, may not be on satisfactory terms, particularly given the current credit crisis. Future debt financings, if available, will require the approval of KES' existing lenders and may result in increased interest and amortization expense. In addition, future debt financings by KES may limit our ability to withstand competitive pressures and render us more vulnerable to economic downturns. If KES fails to generate or obtain sufficient additional capital in the future, KES could be forced to reduce or delay capital expenditures, sell assets or restructure or refinance its indebtedness, which in turn would also have an adverse effect on the

amount of the tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

Unexpected equipment failures or unanticipated events may lead to production curtailments or shutdowns resulting in lost revenues and increased costs.

Interruptions in production capabilities will inevitably increase production costs and reduce KES' sales and earnings. KES' manufacturing processes depend on critical pieces of steelmaking equipment, such as furnaces, continuous casters and rolling equipment, as well as electrical equipment, such as transformers, and this equipment may, on occasion, be out of service as a result of unanticipated failures. In the future, KES may experience material plant shutdowns or periods of reduced production as a result of equipment failures. Furthermore, any interruption in production capability may require KES to make large capital expenditures to remedy the situation, which could have a negative effect on our profitability and cash flows. In addition to equipment failures, KES' facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions, adverse weather conditions or transportation interruptions. KES maintains business interruption insurance to offset these potential lost revenues or increased costs; however, there can be no assurance that our coverage is sufficient to fully offset the lost revenues or increased costs that we may experience. In addition to the revenue losses, longer-term business disruption could result in a loss of customers. If this were to occur, KES' future sales levels, and therefore profitability and cash flows, could be adversely affected, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

Competition from other materials may materially adversely affect our business.

In many applications, steel competes with other materials, such as aluminum, cement, composites, glass, plastic and wood. Increased use of these materials in substitution for steel products could materially adversely affect prices and demand for KES' steel products.

Environmental regulations impose substantial costs and limitations on operations.

KES is subject to various federal, state and local environmental, health and safety laws and regulations, and is required to maintain numerous permits and governmental approvals for operation, concerning issues such as air emissions, wastewater discharges, solid and hazardous waste management and disposal and the investigation and remediation of contamination. These laws and regulations are becoming increasingly stringent. While we believe that KES' facilities are in material compliance with all permits, governmental approvals, applicable environmental laws and regulations, the risks of substantial unanticipated costs and liabilities related to compliance with these permits, governmental approvals, laws and regulations are an inherent part of KES' business. It is possible that future conditions may develop, arise or be discovered that create new environmental compliance or remediation liabilities and costs. While we believe that we can comply with environmental legislation and regulatory requirements and that the costs of compliance have been included within budgeted cost estimates, compliance may prove to be more limiting and costly than anticipated. There can also be no assurance that KES' facilities will continue to operate in accordance with the conditions and restrictions established by the permits or approvals. Similarly, we cannot assure you that the requirements contained in such permits will not change or that KES' facilities will be able to renew or to maintain all permits and approvals required for continued operation of the facilities.

If any substances are found at KES' facilities that are classified by applicable environmental laws, ordinances or regulations as hazardous materials, we could become liable for the investigation and removal of those substances, regardless of their source. Failure to comply with these laws, ordinances or regulations, or any change in the requirements of these laws, ordinances or regulations could result in liabilities, imposition of cleanup liens and fines and large expenditures to bring the facilities into compliance. We may also be subject from time to time to legal proceedings brought by private parties or governmental agencies with respect to environmental matters, including matters involving alleged property damage or personal injury.

Proposed legislation regulating greenhouse gases and carbon dioxide emissions could negatively impact our results of operations.

In 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009 that would regulate greenhouse gases and carbon dioxide emissions and a similar bill has been introduced into the U.S. Senate. It remains unclear whether this proposed legislation will be enacted into law but if enacted such legislation could negatively affect our results of operations. This legislation would regulate domestic production, which would increase our energy and other operating costs and may make domestic manufacturing uncompetitive with imported products, which could negatively impact our sales, operating expenses and results of operations. These increased costs could also encourage more of our customers to relocate their manufacturing facilities to foreign countries that do not regulate greenhouse gas emissions and where we are not positioned to sell or distribute our products, which could also negatively impact our results of operations.

The potential presence of radioactive materials in the scrap that we melt in our electric arc furnaces presents significant risks.

The potential presence of radioactive materials in our scrap supply presents significant economic risks. The cost to clean up the contaminated material and the loss of revenue resulting from the loss in production time could be material to our business, results of operations and financial condition. While we have three detection devices at the Mill, radioactive scrap could go undetected. If we fail to detect radioactive material in the scrap we receive, we may incur significant costs to clean up the contamination of our facilities and to dispose of the contaminated material, which could have a material adverse effect on our results of operation and financial condition. In addition, there can be no assurance that we will have sufficient financial resources to fund the cleanup costs in such event, which could result in a potential suspension or curtailment of operations at the Mill.

The results of our operations are sensitive to volatility in steel prices and changes in the cost of raw materials, particularly scrap steel.

The dramatic decrease in steel industry demand commencing late in 2008 has resulted in sharply reduced demand for raw materials, particularly for scrap steel. The rapid and steep declines in scrap prices has also resulted in similar drops in billet and finished goods pricing, which has adversely impacted our sales which declined sequentially from $39.9 million for the quarter ending December 31, 2008 to $21.0 million for the quarter ending December 31, 2009. Further, in the fourth quarter of 2008, as a result of sharply lower inventory costs, we decreased the carrying value of inventory to account for the lower of cost or market. If demand and prices for steel continue to deteriorate, our sales may continue to decline and we may be required to recognize further losses on the carrying value of our inventory. We were not required make any lower of cost or market adjustments to the carrying value of our inventory since September 30, 2008.

We rely to a substantial extent on outside vendors to supply KES with raw materials that are critical to the manufacture of its products. KES acquires its primary raw material, steel scrap, from one broker. Although we believe that the supply of scrap is adequate to operate KES' facilities, we are subject to risks due to the volatility of the purchase prices of this critical raw material.

At any given time, KES may be unable to obtain an adequate supply of scrap at a price and other terms acceptable to us. Additionally, any change in KES' relationship with its scrap broker could make it more difficult or costly for it to obtain scrap, which could have an adverse impact on our financial condition and results of operations.

If KES' suppliers increase the price of its critical raw materials, it may not be able to locate alternative sources of supply. If KES is unable to obtain adequate and timely deliveries of its required raw materials, KES may be unable to timely and cost effectively manufacture sufficient quantities of its products. This could cause KES to lose sales, incur additional costs and suffer harm to its reputation, financial condition and results of operations, which in turn would also have an adverse effect on the amount of tax sharing

payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

The availability and cost of electricity and natural gas are subject to volatile market conditions that could adversely affect our business.

Our Mill is a large consumer of electricity and natural gas. We rely upon third parties for the supply of energy resources consumed in the manufacture of KES' products. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by weather, political and economic factors, all of which are beyond our control. Disruptions in the supply of the energy resources could temporarily impair KES' ability to manufacture its products. Additionally, Increases in energy costs could materially adversely affect KES' business, results of operations, financial condition and cash flows, which in turn would also have an adverse effect on the amount of tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

Mill management may be difficult to replace if they leave.

Management of the Mill is currently conducted by employees of Pinnacle pursuant to the Pinnacle Agreement which expires October 31, 2013. Our operations and prospects depend in large part on the performance of our Mill management team. The loss of the services of one or more members of our Mill management team or the inability to attract, retain and maintain qualified additional Mill management personnel could harm our business, financial condition, results of operations and future prospects.

Our production and earnings could be reduced by strikes or work stoppages by our employees.

As of December 31, 2009, the Mill employed 150 individuals. If our employees were to strike or we faced similar work stoppages we would experience a disruption of production at our facility, which would cause an adverse impact on our operating costs and results of operations.

Our level of indebtedness and other demands on our cash resources could materially adversely affect our ability to execute our business strategy.

Our total debt obligations (including preferred stock considered as debt obligations in our consolidated financial statements) are approximately $71 million on a consolidated basis as of December 31, 2009. Subject to the limits contained in the Credit Facility and Subordinated Financing Agreement, we may also incur additional debt in the future. In addition to interest and principal payments on our outstanding debt and dividends and repurchase obligations with respect to our preferred stock, we, and in particular KES, have other demands on our cash resources, including, among others, capital expenditures that may arise from time to time and operating expenses.

Our significant indebtedness levels and other demands on our cash resources could have a material effect on our operations and our ability to execute our business strategy. Specifically, our debt has the following impacts on our operations, among others:

- Except for periodic tax sharing payments, all of KES' cash flows must be used to fund its operations and service its debt obligations, including interest, dividends, required principal payments, and required preferred stock repurchase obligations, and therefore is not available for use in KES' business, including working capital needs;

- Our ability to obtain additional debt financing for working capital, capital expenditures, general corporate purposes or other purposes could be impaired by the terms and amount of KES' existing debt and if additional funding is required we may be required to seek additional equity financings, which may have a dilutive impact on our existing stockholders or may not be unavailable on acceptable terms or at all;

- Our failure to comply with restrictions and covenants contained in the terms of our debt agreements, in particular the Credit Facility and Subordinated Financing Agreement, could lead to a default which could cause all or a significant portion of our debt to become immediately payable; if such default is not cured or waived, our lenders could foreclose on our assets, which could result in a complete loss of our stockholders' investments;

- Restrictions in our debt agreements could limit our flexibility in planning for, or reacting to, changes in the industries in which we compete;

- Our level of indebtedness could place us at a competitive disadvantage compared to our competitors, some of which have less debt service obligations and greater financial resources than we do; and

- Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions.

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

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

We cannot assure you that KES' business will generate sufficient cash flow from operations, or that future borrowings will be available to us under the Credit Facility in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We have determined that the Mill needs to operate at or above 45% of its operating capacity in order to pay our indebtedness and we cannot assure you that the Mill will operate at such capacity. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our Credit Facility, on commercially reasonable terms or at all, particularly given the current state of credit markets.

We have variable rate indebtedness that subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

A portion of our current borrowings, namely KES' Credit Facility ($3.3 million Revolver and $5.1 million Term Loan at December 31, 2009), and potential future borrowings, are and may continue to be at variable rates of interest, thus exposing us to interest rate risk. If interest rates increase, our debt service obligations on our variable rate indebtedness would increase even if the amount borrowed remained the same, resulting in a decrease in our net income. For example, pursuant to the recent amendment to the Credit Facility the interest rate on KES' Revolver and Term Loan increased by 100 basis points, which will result in an increase in our quarterly interest expense of approximately $21,000, based on the loan balances at December 31, 2009.

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

Our ability to utilize NOLs and tax credit carryforwards to offset our future taxable income and/or to recover previously paid taxes would be limited if we were to undergo an "ownership change" within the meaning of Section 382 of the Code.

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

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders, our ability to use our NOLs and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We have approximately $276 million of (pre-tax) NOLs. The NOLs do not begin to expire until 2012 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

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

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

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

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

The Subordinated Term Loans and KES' Credit Facility contain a number of financial covenants requiring them to meet financial ratios and financial condition tests, as well as covenants restricting their ability to:

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

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

We rely upon a small number of major customers for a substantial percentage of our sales.

A loss of any large customer or group of customers could materially reduce our sales and earnings. We have substantial business relationships with a few large customers. For quarter ended December 31, 2009, our top ten customers accounted for approximately 50% of our consolidated net sales. During this period, our largest customer accounted for approximately 15% of our consolidated net sales. We expect to continue to depend upon a small number of customers for a significant percentage of our net sales, and cannot assure you that any of them will continue to purchase steel from us.

Our internal controls and procedures may be deficient.

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

We may have unknown liabilities stemming from YouthStream Media Networks, Inc.'s historical operations.

There may have been liabilities that stem from YouthStream Media Networks, Inc.'s historical operations of which we are not aware. In the event any such liability becomes known, it may lead to claims against us, but not limited to, lawsuits, administrative proceedings, and other claims. Any such liabilities may subject us to increased expenses for attorneys' fees, fines and litigation and expenses associated with any subsequent settlements or judgments. There can be no assurance that such unknown liabilities do not exist. To the extent that such liabilities become known, any such liability-related expenses may materially and adversely affect our profitability, operating results and financial condition.

We may encounter difficulties in acquiring other companies.

We acquired the Mill effective March 1, 2005 and may in the future acquire other companies. If we identify suitable candidates, we may not be able to make investments or acquisitions on commercially acceptable terms. Acquisitions may cause a disruption in our ongoing business, distract management, require other resources and make it difficult to maintain our standards, controls and procedures. We may not be able to retain key employees of the acquired companies or maintain good relations with their clients or suppliers. We may be required to incur additional debt and to issue equity securities to effect and/or fund acquisitions, which may be dilutive to existing stockholders.

We cannot assure you that any acquisitions we make will enhance our business.

We cannot assure you that any completed acquisition will enhance our business. Since we anticipate that acquisitions could be made with both cash and our common stock, the potential impacts that may arise if we consummate one or more significant acquisitions may include:

- a substantial portion of our available cash could be used to consummate the acquisitions and/or we could incur or assume significant amounts of indebtedness; and

- our stockholders could suffer significant dilution of their interest in our common stock.

Also, we are required to account for acquisitions under the purchase method, which would likely result in our recording significant amounts of goodwill or other tangible and intangible assets. The inability of a subsidiary to sustain profitability may result in an impairment loss in the value of long-lived assets, principally goodwill and other tangible and intangible assets, which would adversely affect our financial statements.

Decreases in the demand for steel could have a material adverse impact on our business.

The U.S. steel industry experienced a significant economic downturn in late 2008, which continued through 2009. This decline has led to deterioration in backlog and, therefore, excess capacity in producing mills worldwide, which has already resulted in a corresponding decrease in our sales and may adversely impact our sales, financial condition and results of operations going forward. Further, while we operate in the U.S., the global steel industry has suffered significant deterioration in demand, which has had an adverse affect on steel prices in the U.S.

We may face significant price and other forms of competition from other steel producers, which could have a material adverse effect on our business, financial condition, results of operation or prospects.

The global markets in which steel companies conduct business are highly competitive. Increased competition could cause us to lose market share or reduce pricing, either one of which could have a material adverse effect on our business, financial condition, results of operations or prospects. We compete primarily on the basis of price, quality and the ability to meet our customers' product needs and delivery schedules. Some of our competitors may have advantages due to greater capital resources, different technologies, lower raw material costs, lower energy costs or favorable exchange rates.

Risks Related to our Common Stock

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

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

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

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

Volatility in the market price of our common stock.

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

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

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

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

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

We have a stockholder rights plan (the "Plan") designed to preserve the value of certain tax assets primarily associated with our NOLs and built in losses under Section 382. The Company has approximately $276 million in net operating losses and the use of such losses to offset federal income tax would be limited, if the Company experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company's stock by value increase their collective ownership of the aggregate amount of the Company's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

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

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

ITEM 8. EXHIBITS

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

PART E

EXHIBITS

Exhibit No.	Description
1	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com.).
2	Certificate of Designation for Preferred Stock of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on January 21, 2003 (incorporated by reference to Exhibit 99.3 to YouthStream's Form 8-K filed with the Securities and Exchange Commission ("SEC") on February 7, 2003).
3	Certificate of Correction to the Certificate of Designation of Series A Preferred Stock of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on January 20, 2004 (incorporated by reference to Exhibit 3.5 to YouthStream's Amended Form 10-K/A, filed with the SEC on March 5, 2004).
4	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006.
5	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com.)
6	YouthStream Media Networks, Inc. 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.28 to YouthStream's Form 10-KSB filed with the SEC for the fiscal year ended June 30, 1999).
7**	First Amendment to the Amended and Restated Management Services Agreement by and among KES Acquisition Company and Pinnacle Steel, LLC dated February 23, 2007.
8	Tax Sharing Agreement by and between the Company YouthStream Acquisition Corp. and Atacama KES Holdings Corporation dated February 28, 2005.
9	Amended and Restated Management Services Agreement, February 28, 2005, by and between KES Acquisition Company, LLC and Pinnacle Steel, LLC (incorporated by reference to Exhibit 10.83 to YouthStream's Form 8-K, filed with the SEC on March 14, 2005).
10	Amendment No. 1 to the Tax Sharing Agreement by and between the Company YouthStream Acquisition Corp. and Atacama KES Holdings Corporation dated December 22, 2005.
11***	Third Amendment to the Financing Agreement and First Amendment to Security Agreement, dated July 20, 2009, by and among KES, the lenders a party thereto, Ableco Finance LLC, as collateral agent, and PNC Bank, National Association, as administrative agent.
12	Rights Agreement dated May 13, 2009 by and between ALJ Regional Holdings, Inc. and American Stock Transfer and Trust Company, LLC (incorporated by reference to Annex B to ALJ Regional Holdings proxy statement dated May 15, 2009 available at www.pinksheets.com).

** Filed with the Company's Quarterly Report for the period ended March 31, 2007.

*** Filed with the Company's Quarterly Report for the period ended June 30, 2009.

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

Certification of the Chief Executive Officer

I, John Scheel, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended December 31, 2009;

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 position, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended December 31, 2009.

Date:

/S/ John Scheel
John Scheel,
Chief Executive Officer

Certification of the Chief Financial Officer

I, T. Robert Christ, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended December 31, 2009;

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 position, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended December 31, 2009.

Date:

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