

ALJ REGIONAL HOLDINGS, INC.

**244 Madison Avenue
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New York, New York 10016**

(212) 883-0083

**Quarterly Report for the
Period Ended
March 31, 2011**

ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this report (the “Report”) regarding financial and operating performance and other statements that are not historical facts, including, among others, statements regarding the Company’s ability to fund its operations, service indebtedness, improve operating efficiencies, benefit from financial and corporate restructuring, offset future income against net operating loss carryovers (“NOLs”) and use its rights plan to preserve NOLs, constitute forward-looking statements. In general, you can identify forward-looking statements by the presence of words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “predict,” “project,” and similar expressions.

Forward-looking statements are based on reasonable expectations and are subject to risks and uncertainties. Actual results will differ, perhaps materially, from those set forth or implied by such forward-looking statements due to a variety of factors, including, among others:

- Economic or other cyclical changes in market supply and demand for steel;
- Monetary or trade policy affecting the price, import or export of steel;
- Price competition resulting from excess steelmaking capacity in the market, imports of low priced steel from overseas or consolidation of steelmaking operations;
- Changes in the availability or cost of raw materials, supplies and energy, including steel scrap, electricity, natural gas or other utilities;
- Unanticipated equipment failures and plant outages or the occurrences of extraordinary operating expenses;
- Margin compression resulting from the inability to pass expense increases or surcharges to customers;
- Loss of business from one or more major customers or end-users;
- Labor unrest, work stoppages or strikes involving the steel industry in general and in particular the workforce of the Company or those of its important suppliers or customers;
- Adverse weather conditions affecting the Company’s operations or the operations of its important suppliers or customers;
- 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;
- 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;
- 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;
- 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; and
- Changes in tax laws or regulations regarding the use and/or preservation of NOLs.

The Company is also subject to general business risks, including its success in continuing to settle the Company’s outstanding obligations from its prior business activities, results of tax audits, 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 and based on information available to the Company as of the date hereof. 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			Preferred Stock		
	Period End Date	Period End Date	Period End Date	Period End Date	Period End Date	Period End Date
	March 31, 2011	September 30, 2010	September 30, 2009	March 31, 2011	September 30, 2010	September 30, 2009
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	49,729,574	49,729,574	48,665,104	305,156	374,556	374,556

ITEM 3. INTERIM FINANCIAL STATEMENTS

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

	<u>March 31, 2011</u>	<u>September 30, 2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 489,932	\$ 391,470
Accounts receivable, less allowance for doubtful accounts of \$698,577 at March 31, 2011 and \$576,882 at September 30, 2010	15,396,526	11,030,780
Inventories	26,414,669	21,272,658
Prepaid expenses and other current assets	545,927	1,509,668
Total current assets	42,847,054	34,204,576
Property, plant and equipment	5,107,203	5,107,203
Less accumulated depreciation and amortization	(2,393,694)	(2,200,111)
Property, plant and equipment, net	2,713,509	2,907,092
Other assets:		
Deposits	924,460	924,460
Deferred loan costs, net of amortization	-	176,712
Investment in Bellator	241,769	241,769
Total other assets	1,166,229	1,342,941
Total assets	\$ 46,726,792	\$ 38,454,609

(continued)

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

(continued)

	March 31, 2011	September 30, 2010
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	\$ 10,663,906	\$ 6,111,990
Accrued expenses	3,059,756	2,289,189
Accrued interest payable	1,128,985	2,290,349
Income taxes payable	695,262	328,073
Secured line of credit	14,091,021	13,181,106
Current portion of notes payable	1,985,286	3,209,395
Current portion of capital lease obligation	152,233	152,233
Liabilities related to discontinued operations	2,984,660	2,984,660
Total current liabilities	\$ 34,761,109	\$ 30,546,995
Non-current liabilities:		
4% note payable	2,147,268	2,147,268
8% subordinated term loans	31,197,713	29,882,226
Notes Payable	-	823,880
Capital lease obligation, less current portion	97,947	171,792
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; 5,936 shares issued and outstanding at March 31, 2011 plus cumulative dividends of \$4,706,765, 5,936 shares issued and outstanding at September 30, 2010 plus cumulative dividends of \$4,321,885	10,642,765	10,257,885
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; 305,156 shares issued and outstanding at March 31, 2011 plus cumulative dividends of \$656,392, 374,556 shares issued and outstanding at September 30, 2010 plus cumulative dividends of \$775,790	1,877,016	2,274,014
Minority interest – related parties	4,656,437	4,064,492
Total liabilities	\$ 85,380,255	\$ 80,168,552
Commitments and contingencies		
Stockholders' deficiency:		
Preferred stock, \$0.01 par value; authorized - 5,000,000 shares; issued and outstanding and 305,156 shares of Series A preferred stock at March 31, 2011 and 374,556 shares of Series A preferred stock at September 30, 2010 (classified in long-term liabilities as preferred stock subject to mandatory redemption)		
Common stock, \$0.01 par value; authorized - 100,000,000 shares; 49,729,574 issued and outstanding at March 31, 2011 and September 30, 2010	497,295	497,295
Additional paid-in capital	284,825,306	284,717,264
Accumulated deficit	(323,146,488)	(326,098,926)
Treasury stock – 607,500 shares, at cost	(829,576)	(829,576)
Total stockholders' deficiency	(38,653,463)	(41,713,943)
Total liabilities and stockholders' deficiency	\$ 46,726,792	38,454,609

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
NET SALES	\$40,292,498	\$28,457,641	\$72,966,674	\$49,484,709
COSTS AND EXPENSES				
Cost of sales	33,986,987	24,052,165	62,828,309	42,380,843
Selling	480,119	412,829	934,271	821,781
General and administrative	1,815,204	1,529,616	3,192,639	2,694,068
Total cost of operations	36,282,310	25,994,610	66,955,219	45,896,692
Income from operations	4,010,188	2,463,031	6,011,455	3,588,017
OTHER INCOME (EXPENSE)				
Interest income	36,509	11,993	37,802	13,122
Interest expense:				
13% Series A Preferred Stock	(190,325)	(400,685)	(384,880)	(810,274)
Subordinated Notes payable	(615,407)	(589,457)	(1,244,490)	(1,192,014)
Other	(269,737)	(273,111)	(579,238)	(543,494)
Other income (expense), net	4,300	2,250	27,559	4,539
Gain on extinguishment of debt	147,941	--	147,941	--
Total other income (expense)	(886,719)	(1,249,010)	(1,995,306)	(2,528,121)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	3,123,469	1,214,021	4,016,149	1,059,896
Income taxes	(366,869)	(184,713)	(471,767)	(216,929)
INCOME (LOSS) BEFORE MINORITY INTEREST	2,756,600	1,029,308	3,544,382	842,967
MINORITY INTEREST – related parties	(466,672)	(150,443)	(591,944)	(117,208)
NET INCOME (LOSS)	2,289,928	878,865	2,952,438	725,759
NET INCOME (LOSS) PER COMMON SHARE -				
Basic	\$0.05	\$0.02	\$0.06	\$0.01
Dilutive	\$0.05	\$0.02	\$0.06	\$0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	49,729,574	48,665,104	49,729,574	48,665,104
Dilutive	50,229,574	49,350,149	50,029,574	49,350,149

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
SIX MONTHS ENDED MARCH 31, 2011

	Common Stock		Additional Paid-in	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balances at September 30, 2010	49,729,574	\$ 497,295	\$ 284,717,264	\$ (326,098,926)	\$ (829,576)	\$ (41,713,943)
Share-based compensation:						
Restricted Stock			15,628			15,628
Stock Options			92,414			92,414
Net income				2,952,438		2,952,438
Balances at March 31, 2011	49,729,574	\$ 497,295	\$ 284,825,306	\$ (323,146,488)	\$ (829,576)	\$ (38,653,463)

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 2,952,438	\$ 725,759
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	193,583	200,313
Stock-based compensation	108,042	106,302
Gain on extinguishment of debt	(147,941)	--
Amortization of original issue discount on subordinated notes payable		
Amortization of deferred loan costs	176,712	221,799
Provision for bad debts	121,695	--
Minority interest – related parties	591,945	117,208
Changes in operating assets and liabilities:		
Decrease (increase) in -		
Accounts receivable, net	(4,487,441)	(1,127,646)
Inventories	(5,142,011)	(3,602,738)
Income taxes receivable	--	(17,573)
Prepaid expenses and other receivables	963,741	156,387
Deposits	--	(18,025)
Increase (decrease) in -		
Accounts payable	4,551,916	(1,619,259)
Accrued expenses	770,567	(320,456)
Income taxes payable	367,189	138,466
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,020,435	(5,039,463)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital lease equipment	--	(29,269)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	--	(29,269)
CASH FLOWS FROM FINANCING ACTIVITIES		
Additional borrowings under 4% notes payable	--	37,896
Net borrowings (repayments) under equipment capital lease obligation	(73,845)	(65,534)
Net borrowings (repayments) under 8% notes payable	154,123	974,023
Partial repayment on 4% Preferred Stock	(277,600)	--
Accrued dividends on 4% Preferred Stock	28,543	29,882
Accrued dividends on 13% Preferred Stock	384,880	810,274
Repayments on term loans	(2,047,989)	(1,188,736)
Net proceeds (repayments) under secured line of credit	909,915	4,306,060
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(921,973)	4,903,865
NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES	98,462	(164,867)
CASH AND CASH EQUIVALENTS		
Net increase (decrease)	98,462	(164,867)
Balance at beginning of period	391,470	553,519
Balance at end of period	489,932	388,652
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	1,357,200	753,882
Income taxes	104,577	82,646

Noncash investing and financing transactions:

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2011

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 March 31, 2011 and September 30, 2010, the results of operations for the three months and six months ended March 31, 2011 and 2010, and the cash flows for the six months ended March 31, 2011 and 2010.

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 six months ended March 31, 2011 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending September 30, 2011.

Liquidity and Capital Resources

The Company recognized net income of \$2,952,438 for the six month period ended March 31, 2011 and generated a positive cash flow from operating activities of \$1.0 million for the six months ended March 31, 2011. The Company used \$921,973 in financing activities and had an accumulated deficit of \$323.1 million and a stockholders’ deficiency of \$38.7 million at March 31, 2011.

For the year ended September 30, 2010, net income was \$7.6 million exclusive of interest expense and taxes. For the six months ended March 31, 2011, operating income was \$6.0 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 to fund its operations.

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the Credit Facility (as defined below) will be adequate to fund its operations through March 31, 2012. 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

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

Income Taxes

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

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2002 to 2009. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

The Company maintains a full valuation allowance on its deferred tax assets because it unable to conclude that it was more likely than not that it would realize the tax benefits of these deferred tax assets.

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

Concentrations

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

For the six month period ending March 31, 2011, the Company had three suppliers that accounted for approximately 60% of raw materials purchases, of which approximately \$2.7 million was included in accounts payable at March 31, 2011. For the six month period ending March 31, 2011, the Company had one customer that accounted for approximately 16% of net sales, of which approximately \$4.5 million was included in accounts receivable at March 31, 2011.

Earnings Per Share

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

The following table summarizes the basic and dilutive weighted average shares for the six months ending March 31, 2011 and 2010:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Weighted average shares outstanding, basic	49,729,574	48,665,104	49,729,574	48,665,104
Dilutive effect of:				
Options to purchase common stock	500,000	685,045	300,000	685,045
Warrants to purchase common stock	--	--	--	--
Weighted average shares outstanding, diluted	50,229,574	49,350,149	50,029,574	49,350,149

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, 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.

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.

RECENT DEVELOPMENTS

February 2011 Preferred Stock Repurchase Transactions

On February 2011, ALJ repurchased 69,400 shares of its 4% Series A Preferred Stock, plus accrued dividends thereon for an aggregate consideration of \$277,600 (the "Stock Repurchase"), from three individuals, two of whom are related parties. The repurchased stock had a face value of \$277,600 plus accrued dividends of approximately \$147,941. ALJ recognized a gain of \$147,941 in connection with the Stock Repurchase. The Stock Repurchase was effected pursuant to stock repurchase agreements between ALJ and the holders of the Repurchased Stock dated February 15, 2011. A portion of ALJ's Series A Preferred Stock, including 59,244 shares of the Stock Repurchase, was held by certain affiliated parties. The remaining 305,156 Shares of Series A Preferred Stock is held by Jess Ravich, the Chairman of Board. The terms of the Stock Repurchase were approved by the independent members of the Board of Directors of ALJ.

May 2010 Restructuring and Repurchase Transactions

On May 28, 2010, KES entered into the Revolving Credit, Term Loan and Security Agreement (the "Loan Agreement") by and among KES, the financial institutions from time to time a party thereto (the "Senior Lenders") and PNC Bank, National Association ("PNC"), as a lender and as agent for the lenders. The Loan Agreement provides for an asset-based revolving credit line of \$23 million (the "Revolver") and a term loan of \$4 million (the "Term Loan," and together with the Revolver, the "Credit Facility"). The Credit Facility has a three year term. The Term Loan amortizes at \$500,000 per quarter from May 28, 2010 to May 28, 2012, and is subject to an annual excess cash flow payment which can expedite the amortization of the loan. 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 customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios.

Substantially all of the Company's assets are owned by KES. Pursuant to the terms of the Credit Facility and other financing agreements described herein, 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 \$271 million in net operating loss carryovers currently available to offset the consolidated federal taxable income of the affiliated group in the future. As of March 31, 2011, ALJ has accumulated \$796,226 of tax sharing payments related to the fiscal year ending September 30, 2011.

Jess Ravich, the Chairman of the Board, and a certain trust for his benefit (the "Guarantors") personally guaranteed the Term Loan, in exchange for payment of a guaranty fee by KES. The terms of the guaranty by the Guarantors were approved by the independent members of the Board.

KES used the proceeds of the Credit Facility: (1) to repay all outstanding obligations under the Financing Agreement, dated as of February 23, 2007, providing for a revolving line of credit and two new term loans (the "2007 Credit Facility") with Ableco Finance LLC ("Ableco") and PNC, (2) to pay certain fees and expenses related to the Credit Facility, and (3) to redeem shares of its 13% Series A Non-Convertible Preferred Stock ("13% Series A Preferred Stock"), as described in detail below.

On May 28, 2010, KES repurchased 6,564 shares of its 13% Series A Preferred Stock (the "Repurchased Stock") plus accrued dividends thereon for aggregate consideration of \$5.9 million (the "Stock Repurchase"). The Repurchased Stock had a face value of approximately \$6.6 million plus accrued dividends of approximately \$3.9 million. The Stock Repurchase was effected pursuant to stock repurchase agreements between KES and the holders of the Repurchased Stock dated May 28, 2010. The remaining 13% 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 Subordinated Loans (as defined below). As of March 31, 2011, the balance outstanding on the 13% Series A Preferred Stock was \$5.9 million and related accrued dividends payable were \$4.7 million.

On May 28, 2010, ALJ repurchased \$600,000 in principal balance plus \$304,945 of accrued interest on its 4% Restated Promissory Note dated January 24, 2003 (the "4% Note") for consideration of \$492,000 (the "Note Repurchase"). The purchase price was \$300,000 in cash and 600,000 shares of ALJ's Common Stock (valued at \$192,000 or \$0.32 per share). The Note Repurchase was effected pursuant to a Note Repurchase Agreement dated May 28, 2010 between ALJ and the noteholder. The 4% Note was also extended to June 30, 2014. The Note Repurchase was treated as an early retirement of debt, and as a result the face value of the note was reduced to \$1.3 million, and the carrying value of the note was reduced to \$2.1 million inclusive of accrued interest. On a going forward basis no additional interest will be accrued on the note.

On May 28, 2010, ALJ reached an agreement with the holders of its 4% Series A Preferred Stock to extend the mandatory redemption of the stock to June 30, 2014.

Since the acquisition of the Mill by KES, 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. In connection with the May 28, 2010 restructuring, the Pinnacle Agreement was extended through May 2014, 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.

Related Party Transactions

As of March 31, 2011, Mr. Ravich, who is the Chairman of the Board of ALJ and a director of KES holds: (1) Subordinated Loans under the Subordinated Financing Agreement, (2) Series B Common Stock of KES, (3) either directly or through his family trusts, 7,350,528 shares of ALJ's common stock, (4) 1,888,889 shares of ALJ Common Stock issuable upon exercise of currently vested options as of March 31, 2011, (5) 8,224 shares of unvested restricted common stock of ALJ and (6) 305,156 shares of ALJ's Series A Preferred Stock. As part of the restructuring as discussed above, the Company entered into a Fee and Reimbursement Agreement dated May 28, 2010 with the Guarantors (the "Fee and Reimbursement Agreement"). Pursuant to the Fee and reimbursement Agreement, the Company paid the Guarantors a one time fee of \$100,000 at the closing on May 28, 2010 and will pay an additional \$50,000 on the first anniversary date of the closing. The terms of the guaranty and the Fee and Reimbursement Agreement were approved by the independent members of the Board.

Robert Scott Fritz and Hal G. Byer, both directors of ALJ, were holders of \$137,820 and \$245,928, respectively, of the aggregate principal amount of the Subordinated Notes and are holders of shares of Series B common stock of KES. Messrs. Byer and Fritz were lenders under the Subordinated Financing Agreement. On February 15, 2011, Messrs. Fritz and Byer and Jon Diamond, a former director of ALJ, sold 25,390, 33,854 and 10,156 shares, respectively, of ALJ's Series A Preferred Stock (see section in Recent Developments, entitled, "**February 2011 Preferred Stock Repurchase Transactions**").

4. Inventories

Inventories are comprised of the following at March 31, 2011 and September 30, 2010:

March 31, 2011 Unaudited	September 30, 2010 Unaudited
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Raw materials	\$ 1,580,251	\$ 2,264,749
Semi-finished goods	11,254,255	10,682,554
Finished goods	13,580,163	8,325,355
Total	<u>\$ 26,414,669</u>	<u>\$ 21,272,658</u>

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 May 28, 2010, KES entered into the Loan Agreement providing for the Credit Facility with PNC. The Credit Facility provides for the Revolver with a maximum availability of \$23 million and a Term Loan in the amount of \$4 million. The Credit Facility matures on May 28, 2012. The Term Loan amortizes at \$500,000 per quarter from May 28, 2010 to May 28, 2012, and is subject to an annual excess cash flow payment which can expedite the amortization of the loan. As of March 31, 2011, the outstanding Term Loan portion of the Credit Facility was \$2.0 million and the outstanding balance on the Revolver was \$14.1 million. 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 fixed charge coverage and leverage ratios.

On July 20, 2009, KES entered into the Subordinated Financing Agreement by and among KES, the lenders a party thereto and Ableco as collateral and administrative agent (the "Subordinated Financing Agreement"). Pursuant to the Subordinated Financing Agreement KES refinanced certain subordinated promissory notes that were originally issued in March of 2005 in connection with ALJ's acquisition of KES (the "Sub Notes"). Specifically, 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 included Ableco, ALJ and Jess Ravich, Hal Byer and Scott Fritz, all of whom serve on the Board.

6. Commitments and Contingencies

Operating Commitments

The Mill has been operating under the Pinnacle Agreement, which is effective through May 2014. 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 March 31, 2011, management had accrued approximately \$739,562 for management fees to Pinnacle for the year ending September 30, 2011.

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 \$1.9 million and \$3.0 million at March 31, 2011 and September 30, 2010, respectively.

7. Income Taxes

The Company accrued \$695,262 for federal and state income taxes due as of March 31, 2011. The income tax provision was computed based on the projected alternative minimum tax 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 \$271 million that expire from 2012 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 and Subordinated Financing Agreement. 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 six month-period ending March 31, 2011, the Company recognized share-based share compensation expense of \$15,628 related to the issuance of restricted stock in a prior period and \$92,414 related to the issuance of stock options in a prior period.

All share-based payments to employees are recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. The Company computed volatility of 135% for the restricted stock granted during the year ended September 30, 2010 and 129% for the options and restricted stock granted during the year ended September 30, 2009. 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 0.32% was used for the restricted stock granted during the year ended September 30, 2010 and 0.47% for the restricted stock granted and options issued during the year ending September 30, 2009, 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 six months ending March 31, 2011 is as follows:

Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term
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Balance outstanding as of September 30, 2010	2,850,000	\$0.38	9.4 years
Granted	0	\$0.00	
Forfeited	50,000	\$0.26	
Balance outstanding as of March 31, 2011	<u>2,800,000</u>	\$0.38	9.4 years
Options vested as of March 31, 2011	<u>2,672,222</u>	\$0.38	9.6 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, 2010, 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 its 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

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

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2002 to 2009. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

The Company maintains a full valuation allowance on its deferred tax assets because it is unable to conclude that it is more likely than not that it would realize the tax benefits of these deferred tax assets.

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

Results of Operations for the Three and Six Months Ended March 31, 2011 and 2010

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 March 31,				Six Months Ended March 31,			
	2011		2010		2011		2010	
Net Sales	\$40,292,498	100%	\$28,457,641	100%	\$72,966,674	100%	\$49,484,709	100%
Cost of sales	33,986,987	84%	24,052,165	85%	62,828,309	86%	42,380,843	86%
Gross Profit	6,305,511	16%	4,405,476	15%	10,138,365	14%	7,103,866	14%
Selling	480,119	1%	412,829	1%	934,271	1%	821,781	2%
General and administrative	1,815,204	5%	1,529,616	5%	3,192,639	4%	2,694,068	5%
Income from operations	4,010,188	10%	2,463,031	9%	6,011,455	9%	3,588,017	7%

For the three months ended March 31, 2011 and 2010

Net Sales

Net sales for the three months ending March 31, 2011 were \$40.3 million, an increase of \$11.8 million, or 42%, over net sales of \$28.5 million for the three months ending March 31, 2010. The increase in net sales was primarily attributable to an increase in tons invoiced of 4,714 tons, or 14%, and an increase of 24% in the average selling price per ton.

Cost of Sales

Cost of sales for the three months ending March 31, 2011 were \$34.0 million, an increase of \$9.9 million, or 41%, over cost of sales of \$24.1 million for the three months ending March 31, 2010. The increase in cost of sales was primarily due to increases in our raw materials cost. In particular, scrap prices for the three months ending March 31, 2011 increased 32% over the three month period ending March 31, 2010.

Gross Profit

Gross profit for the three months ending March 31, 2011 was \$6.3 million, an increase of \$1.9 million, or 43%, over gross profit of \$4.4 million for the three months ending March 31, 2010. Gross profit as percentage of sales increased for the three months ending March 31, 2011 to 16% as compared to gross profit as a percentage of sales of 15% for the three months ending March 31, 2010.

Selling Expenses

Selling expenses for the three months ending March 31, 2011 were \$480,119, an increase of \$67,290, or 16% over selling expenses for the three months ending March 31, 2010 of \$412,829. The increase was primarily attributable to higher revenue which in turn resulted in higher commissions.

General and Administrative Expenses

General and administrative expenses for the three months ending March 31, 2011 were \$1.8 million, an increase of \$285,588, or 19%, over general and administrative expenses of \$1.5 million for the three months ending March 31, 2010. The increase was primarily attributable to an increase in the management incentive fees of \$305,895 and repairs and maintenance of \$138,275 partially offset by a reduction in the amortization of loan fees of \$120,160.

For the six months ended March 31, 2011 and 2010

Net Sales

Net sales for the six months ending March 31, 2011 were \$73.0 million, an increase of \$23.5 million, or 47%, over net sales of \$49.5 million for the six months ending March 31, 2010. The increase in net sales was primarily attributable to an increase in tons invoiced of 12,358 tons, or 21%, and an increase of 22% in the average selling price per ton.

Cost of Sales

Cost of sales for the six months ending March 31, 2011 were \$62.8 million, an increase of \$20.4 million, or 48%, over cost of sales of \$42.4 million for the six months ending March 31, 2010. The increase in cost of sales was primarily due to increases in our raw materials cost. In particular, scrap prices for the six months ending March 31, 2011 increased 32% over the six month period ending March 31, 2010.

Gross Profit

Gross profit for the six months ending March 31, 2011 was \$10.1 million, an increase of \$3.0 million, or 43%, over gross profit of \$7.1 million for the six months ending March 31, 2010. Gross profit as percentage of sales for the six months ending March 31, 2011 and March 31, 2010 was 14%.

Selling Expenses

Selling expenses for the six months ending March 31, 2011 were \$934,271, an increase of \$112,490, or 14% over selling expenses for the six months ending March 31, 2010 of \$821,781. Selling expenses primarily increased due to higher revenue resulting in higher commissions.

General and Administrative Expenses

General and administrative expenses for the six months ending March 31, 2011 were \$3.2 million, an increase of \$498,571, or 19% over general and administrative expenses for the six months ending March 31, 2010 of \$2.7 million. The increase was primarily attributable to an increase of \$469,142 in management incentive fees and \$149,635 in repairs and maintenance, partially offset by a reduction of \$170,999 in the amortization of loan fees.

Liquidity and Capital Resources – March 31, 2011

The Company recognized operating income of \$2,952,438 for the six month period ended March 31, 2011 and generated a positive cash flow from operating activities of \$1.0 million for the six months ended March 31, 2011. The Company used \$921,973 in financing activities and had an accumulated deficit of \$323.1 million and a stockholders' deficiency of \$38.7 million at March 31, 2011.

The Company recognized net income of \$5.7 million for the year ending September 30, 2010 and generated a positive cash flow from financing activities of \$3.0 million for the year ending September 30, 2010. The Company used \$3.4 million in operating activities and \$29,269 in investing activities and had an accumulated deficit of \$326.1 million and a stockholders' deficiency of \$41.7 million at September 30, 2010. The Mill relies on cash flows from operations to support the Credit Facility with PNC Bank to fund its operations.

As of March 31, 2011, the balance outstanding on the Credit Facility was \$16.1 million (\$14.1 million under the Revolver and an aggregate of \$2.0 million under the Term Loan).

At March 31, 2011, 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 six months ending March 31, 2011 was \$796,226. ALJ has approximately \$271 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 six months ending March 31, 2011, the Company generated \$1.0 million in operating activities, primarily attributable to net income of \$3.0 million, an increase in accounts payable of \$4.6 million, partially offset by an increase in inventory of \$5.1 million and an increase in accounts receivable of \$4.5 million.

Financing Activities

For the six months ending March 31, 2011, the Company used \$921,973 from financing activities primarily attributable to payments on term notes of \$2.0 million, partially offset by additional borrowings under the line of credit of \$909,915. Additionally, ALJ repurchased 69,400 shares of its 4% Series A Preferred Stock from related parties, plus accrued dividends thereon for an aggregate consideration of \$277,600. The stock was purchased at a discount of \$147,941.

Principal Commitments

At March 31, 2011, the Company's principal commitments consisted of the following obligations:

	Payments Due by 12 Month Periods Ending March 31, (in thousands)					
Contractual cash obligations	Total	2012	2013	2014	2015	Thereafter
4% notes payable	\$ 2,147	\$ ---	\$ ---	\$ ---	\$ 2,147	\$ ---
8% Subordinated Loans	32,327	1,129	---	---	---	31,198
Term Loan – PNC	1,985	1,985	---	---	---	---
Revolver – PNC	14,091	---	---	14,091	---	---
Operating leases	1,946	724	724	498	---	---
Capital lease obligation	250	152	98	---	---	---
Management services agreement	2,217	700	700	700	117	---
4% Series A Preferred Stock subject to mandatory redemption	1,877	---	---	---	1,877	---
13% Series A Preferred Stock of subsidiary subject to mandatory redemption, including accrued dividends	10,643	---	---	---	---	10,643
Total contractual cash obligations	\$ 67,483	\$ 4,690	\$ 1,522	\$ 15,289	\$ 4,141	\$ 41,841

At March 31, 2011, the Company did not have any material commitments for capital expenditures.

At March 31, 2011, 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 \$1.9 million.

Off-Balance Sheet Arrangements

The Company does not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at March 31, 2011.

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 the Credit Facility and Subordinated Financing Agreement. 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 and continuing through 2010. 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 the 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.

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.

Steel prices are inherently volatile and are influenced by various factors, including, among others, global supply and demand, prices for raw materials, new laws and regulations, interruptions in production, accidents or natural disasters, changes in exchange rates, worldwide price fluctuations, and the availability and cost of transportation. Declines in steel prices could harm our sales and results of operations.

We are also subject to risks due to volatility in the price of raw materials. We rely to a substantial extent on outside vendors to supply KES with raw materials that are critical to the manufacture of its products. For example, 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, fluctuations in the price of steel scrap and other raw materials could adversely affect our results of operations.

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.

The 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 Steel, LLC pursuant to the Pinnacle Agreement which expires in May 2014. 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 March 31, 2011, the Mill employed 140 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 \$63 million on a consolidated basis as of March 31, 2011. 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 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 the 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 the Credit Facility (\$14.1 million Revolver and \$2.0 million Term Loan at March 31, 2011), 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, in July 2009 the interest rate on KES' then outstanding senior credit facility increased by 100 basis points, which resulted in an increase in our annual interest expense of approximately \$40,190, based on the loan balances at March 31, 2011.

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 had approximately \$271 million of (pre-tax) NOLs as of September 30, 2010. 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 Financing Agreement and Credit Facility contain a number of financial covenants requiring KES to meet financial ratios and financial condition tests, as well as covenants restricting its 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 the 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 the 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 the Credit Facility or Subordinated Financing Agreement. There can also be no assurance that KES' 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. In the six months ended March 31, 2011, our top ten customers accounted for approximately 46% of our consolidated net sales. During this period, our largest customer accounted for approximately 16% 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 be 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,

including 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 has continued into 2010. 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. At March 31, 2011, the Company had approximately \$271 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

<u>Exhibit No.</u>	<u>Description</u>
1*	First Amendment to Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 1, 2010.
2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2009 available at www.pinksheets.com.).
3	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006. (incorporated by reference to Exhibit 2 to the Company's Annual Report available at www.pinksheets.com posted on January 15, 2007)
4	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com.)
5	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).
6**	First Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated February 23, 2007.
7	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).
8**	Amended and Restated Tax Sharing Agreement by and between the ALJ Regional Holdings, Inc. and KES Acquisition Company.
9	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).
10*	Revolving Credit, Term Loan and Security Agreement, dated as of May 28, 2010, by and among KES, the financial institutions from time to time a party thereto and PNC as a lender and agent for the lenders.
11*	Second Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated May 28, 2010.

* Filed with the Company's Quarterly Report for the period ended June 30, 2010.

** 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 March 31, 2011;
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 March 31, 2011.

Date: May 13, 2011

/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 March 31, 2011;
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 March 31, 2011.

Date: May 13, 2011

/S/ T. Robert Christ

T. Robert Christ,
Chief Financial Officer