

ALJ REGIONAL HOLDINGS, INC.

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

(212) 883-0083

**Quarterly Report for the
Period Ended
March 31, 2012**

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," "may," "plan," "predict," "project," "will," 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 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 also is 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, LLC whose address and phone number are:

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

ITEM 2. SHARES OUTSTANDING

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

	Common Stock			Preferred Stock		
	Period End Date			Period End Date		
	March 31, 2012	September 30, 2011	September 30, 2010	March 31, 2012	September 30, 2011	September 30, 2010
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	56,934,040	56,934,040	49,729,574	0	0	374,556

Of the 5,000,000 shares of preferred stock authorized, 1,000,000 shares have been designated as Series A Preferred Stock, none of which are currently issued and outstanding and 550,000 shares have been designated as Series B Preferred Stock, none of which are currently issued and outstanding.

ITEM 3. INTERIM FINANCIAL STATEMENTS

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

	<u>March 31, 2012</u>	<u>September 30, 2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,836,125	\$ 1,282,228
Accounts receivable, less allowance for doubtful accounts of \$736,152 at March 31, 2012 and \$703,532 at September 30, 2011	14,427,556	14,522,393
Inventories	27,919,269	28,351,131
Prepaid expenses and other current assets	679,751	1,310,364
Deferred taxes	3,059,567	3,059,567
Total current assets	47,922,268	48,525,683
Property, plant and equipment	5,107,203	5,107,203
Less accumulated depreciation and amortization	(2,754,291)	(2,573,958)
Property, plant and equipment, net	2,352,912	2,533,245
Other assets:		
Deposits	924,460	924,460
Deferred loan costs, net of amortization	343,308	398,719
Investment in Bellator	90,228	90,228
Total other assets	1,357,996	1,413,407
Total assets	\$ 51,633,176	\$ 52,472,335

(continued)

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

(continued)

	March 31, 2012	September 30, 2011
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	\$ 10,172,654	\$ 9,888,998
Accrued expenses	2,890,175	3,378,535
Accrued interest payable – 8% subordinated term loans	793,809	1,476,233
Income taxes payable	563,485	867,300
Current portion of term loans	2,000,000	2,535,208
Current portion of capital lease obligation	88,581	171,792
Liabilities related to discontinued operations	2,984,660	2,984,660
Total current liabilities	\$ 19,493,364	\$ 21,302,726
Non-current liabilities:		
Secured line of credit	13,352,753	16,725,304
8% subordinated term loans	18,998,210	19,832,003
Term loans, less current portion	3,000,000	4,000,000
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, 2012 plus cumulative dividends of \$5,480,755, 5,936 shares issued and outstanding at September 30, 2011 plus cumulative dividends of \$5,093,760	11,416,755	11,029,760
Deferred tax liability	383,158	383,158
Minority interest – related parties	6,722,460	5,775,831
Total liabilities	\$ 73,366,700	\$ 79,048,782
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, \$0.01 par value; authorized - 100,000,000 shares; 56,934,040 issued and outstanding at March 31, 2012 and September 30, 2011	569,340	569,340
Additional paid-in capital	288,377,764	288,365,584
Accumulated deficit	(309,851,052)	(314,681,795)
Treasury stock – 607,500 shares, at cost	(829,576)	(829,576)
Total stockholders' deficiency	(21,733,524)	(26,576,447)
Total liabilities and stockholders' deficiency	\$ 51,633,176	52,472,335

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,	
	2012	2011	2012	2011
NET SALES	\$44,384,069	\$40,292,498	\$83,278,959	\$72,966,674
COSTS AND EXPENSES				
Cost of sales	37,088,827	33,986,987	70,492,276	62,828,309
Selling	577,269	480,119	1,114,728	934,271
General and administrative	2,020,353	1,815,204	3,715,837	3,192,639
Total cost of operations	39,686,449	36,282,310	75,322,841	66,955,219
Income from operations	4,697,620	4,010,188	7,956,118	6,011,455
OTHER INCOME (EXPENSE)				
Interest income	2,899	36,509	14,292	37,802
Interest expense:				
13% Series A Preferred Stock	(192,440)	(190,325)	(386,995)	(384,880)
Subordinated loans payable	(388,775)	(615,407)	(793,809)	(1,244,490)
Other	(241,720)	(269,737)	(609,314)	(579,238)
Other income (expense), net	(11,550)	4,300	4,504	27,559
Gain on extinguishment of debt	-	147,941	-	147,941
Total other income (expense)	(831,586)	(886,719)	(1,771,322)	(1,995,306)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	3,866,034	3,123,469	6,184,796	4,016,149
Income taxes	(121,472)	(366,869)	(407,425)	(471,767)
INCOME (LOSS) BEFORE MINORITY INTEREST	3,744,562	2,756,600	5,777,371	3,544,382
MINORITY INTEREST – related parties	(637,585)	(466,672)	(946,628)	(591,944)
NET INCOME (LOSS)	3,106,977	2,289,928	4,830,743	2,952,438
NET INCOME (LOSS) PER COMMON SHARE -				
Basic	\$0.05	\$0.05	\$0.08	\$0.06
Dilutive	\$0.05	\$0.05	\$0.08	\$0.06
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	56,934,040	49,729,574	56,934,040	49,729,574
Dilutive	59,434,040	50,229,574	59,434,040	50,029,574

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
SIX MONTHS ENDED MARCH 31, 2012

	Common Stock		Additional Paid-in	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balances at September 30, 2011	56,934,040	\$ 569,340	\$ 288,365,584	\$ (314,681,795)	\$ (829,576)	\$ (26,576,447)
Share-based compensation:						
Restricted Stock			12,180			12,180
Net income				4,830,743		4,830,743
Balances at March 31, 2012	56,934,040	\$ 569,340	\$ 288,377,764	\$ (309,851,052)	\$ (829,576)	\$ (21,733,524)

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 4,830,743	\$ 2,952,438
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	180,333	193,583
Stock-based compensation	12,180	108,042
Gain on extinguishment of debt	--	(147,941)
Amortization of deferred loan costs	55,411	176,712
Provision for bad debts	36,621	121,695
Minority interest – related parties	946,629	591,945
Changes in operating assets and liabilities:		
Decrease (increase) in -		
Accounts receivable, net	58,216	(4,487,441)
Inventories	431,862	(5,142,011)
Income taxes receivable	--	--
Prepaid expenses and other receivables	630,613	963,741
Deposits	--	--
Increase (decrease) in -		
Accounts payable	283,656	4,551,916
Accrued expenses	(488,360)	770,567
Income taxes payable	(303,815)	367,189
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	6,674,089	1,020,435
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital lease equipment	--	--
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	--	--
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments under equipment capital lease obligation	(83,211)	(73,845)
Principal repayments on 8% subordinated loans	(833,793)	--
Accrued interest on 8% subordinated loans	793,809	1,229,214
Repayments of interest on 8% subordinated loans	(1,476,233)	(1,075,091)
Partial repayment on 4% Preferred Stock	--	(277,600)
Accrued dividends on 4% Preferred Stock	--	28,543
Accrued dividends on 13% Preferred Stock	386,995	384,880
Repayments on Lake Forest term note payable	(535,208)	(533,275)
Repayments on PNC term loans	(1,000,000)	(1,514,714)
Net proceeds (repayments) under secured line of credit	(3,372,551)	909,915
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(6,120,192)	(921,973)
NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES	553,897	98,462
CASH AND CASH EQUIVALENTS		
Net increase (decrease)	553,897	98,462
Balance at beginning of period	1,282,228	391,470
Balance at end of period	1,836,125	489,932
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	2,300,609	1,357,200
Income taxes	271,944	104,577

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2012

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, 2012 and September 30, 2011, the results of operations for the six months ended March 31, 2012 and 2011, and the cash flows for the six months ended March 31, 2012 and 2011.

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, 2012 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending September 30, 2012.

Liquidity and Capital Resources

The Company recognized net income of \$4.8 million for the six month period ended March 31, 2012 and generated a positive cash flow from operating activities of \$6.7 million for the six months ended March 31, 2012. The Company used \$6.1 million in financing activities and had an accumulated deficit of \$309.9 million and a stockholders’ deficiency of \$21.7 million at March 31, 2012.

The Company recognized net income of \$11.4 million for the year ended September 30, 2011 and generated a positive cash flow from operating activities of \$8.2 million for the year ended September 30, 2011. The Company used \$7.3 million in operating activities and had an accumulated deficit of \$314.7 million and a stockholders’ deficiency of \$26.6 million at September 30, 2011. The Mill relies on cash flows from operations and 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, 2013. 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 is 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 carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2008 to 2011. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

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

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, 2012, the Company had three suppliers that accounted for approximately 59% of raw materials purchases, of which approximately \$2.2 million was included in accounts payable at March 31, 2012. For the six month period ending March 31, 2012, the Company had three customers that accounted for approximately 22% of net sales, of which approximately \$4.7 million was included in accounts receivable at March 31, 2012.

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 diluted weighted average shares for the three and six months ending March 31, 2012 and 2011:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Weighted average shares outstanding, basic	56,934,040	49,729,574	56,934,040	49,729,574
Dilutive effect of:				
Options to purchase common stock	2,500,000	500,000	2,500,000	300,000
Warrants to purchase common stock	--	--	--	--
Weighted average shares outstanding, diluted	59,434,040	50,229,574	59,434,040	50,029,574

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 and predecessor of KES ("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. ALJ completed its acquisition of the Mill in March 2005.

4. Recent Developments

None.

5. Related Party Transactions

None.

6. Discontinued Operations

As of March 31, 2012 and September 30, 2011, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of \$2,984,660 and \$2,984,660, respectively, remaining from its

discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the discontinued businesses.

7. Accounts Receivable

Accounts Receivable is summarized as follows at March 31, 2012 and September 30, 2011:

	March 31, 2012 Unaudited	September 30, 2011 Unaudited
Accounts Receivable	\$ 15,163,708	\$ 15,225,925
Less: Allowance for doubtful accounts	(736,152)	(703,532)
Total	<u>\$ 14,427,556</u>	<u>\$ 14,522,393</u>

8. Inventories

Inventories are comprised of the following at March 31, 2012 and September 30, 2011:

	March 31, 2012 Unaudited	September 30, 2011 Unaudited
Raw materials	\$ 2,782,653	\$ 2,739,663
Semi-finished goods	15,233,904	14,317,669
Finished goods	9,902,712	11,293,799
Total	<u>\$ 27,919,269</u>	<u>\$ 28,351,131</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.

9. Property, Plant and Equipment

Property, plant and equipment consisted of the following at March 31, 2012 and September 30, 2011:

	March 31, 2012 Unaudited	September 30, 2011 Unaudited
Land	\$ 142,498	\$ 142,498
Buildings and improvements	572,497	572,497
Machinery and equipment	4,392,208	4,392,208
Total	<u>5,107,203</u>	<u>5,107,203</u>
Less: Accumulated depreciation and amortization	<u>(2,754,291)</u>	<u>(2,573,958)</u>
	2,352,912	2,533,245

Depreciation and amortization expense for the six months ended March 31, 2012 and 2011 was \$180,333 and \$193,583.

10. Long-Term Debt

Secured Credit Line and Restructure of Debt Obligations

On September 30, 2011, KES entered into the Amended and Restated Revolving Credit, Term Loan and Security Agreement (the "Loan Agreement") with PNC Bank, National Association. The Loan Agreement provides for an asset-based revolving credit line of \$30 million (the "Revolver") and a term loan of \$6

million (the "Term Loan," and together with the Revolver, the "Credit Facility"), which is an increase from KES' prior credit line of \$23 million and term loan of \$4 million. The Term Loan and the Revolver bear interest at variable rates based on LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. As of March 31, 2012 and September 30, 2011, the outstanding balance on the Term Loan was \$5.0 million and \$6.0 million, respectively, with an interest rate of 6.50% and 8.00%, respectively. As of March 31, 2012, the outstanding balance on the Revolver was \$13.4 million, of which \$1.9 million had an interest rate of 6.00% and \$11.5 million had an interest rate of 4.5%. As of September 30, 2011 the outstanding balance on the Revolver was \$16.7 million with an interest rate of 6.00%. The Credit Facility is secured by all of the assets of KES and contains customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios and has been presented as a non-current liability in the balance sheet. In addition, the Credit Facility contains an event of default if Jess Ravich is no longer on ALJ's Board of Directors. As of March 31, 2012, KES was in compliance with all specified covenants. In the event that KES is not in compliance with any financial covenants, KES intends to seek a waiver of any default from the lender, and if no such waiver is received, the lender would have the right to accelerate the maturity of the Credit Facility at that time. The Term Loan is to be repaid in equal principal payments of \$500,000 per quarter over twelve quarters plus certain mandatory prepayments. The Revolver expires on September 30, 2014.

Mr. Ravich, together with two trusts including a trust related to Mr. Ravich, collectively guaranteed the Term Loan. KES paid a one-time fee of \$200,000 to the guarantors. The agreement with the guarantors provides that in the event that Mr. Ravich is no longer a director of ALJ, other than by voluntary resignation, then a guaranty premium fee of \$500,000 will be paid to the Ravich Children Permanent Trust of 1989. The terms of the guaranty and guaranty fee were approved by the independent members of each of the ALJ and KES Boards of Directors.

During the six months ending March 31, 2012, the Company also repaid a loan payable to Lake Forest Bank and Trust Company in the amount of \$535,208. The interest rate on the loan was 3.75%. There are currently no amounts due under this loan. As of September 30, 2011, the amount outstanding on the loan was \$535,208.

8% Subordinated Loans

Subordinated loans (the "Subordinated Loans") consist of a series of loans due from KES under the Subordinated Financing Agreement dated July 20, 2009 by and among KES, the lenders party thereto and Ableco, L.L.C. (the "Subordinated Financing Agreement"), which replaced a series of subordinated secured promissory notes dated February 23, 2007, which were originally issued in March 2005 in connection with ALJ's acquisition of KES. The Subordinated Loans are subordinate to the Credit Facility. The Subordinated Loans bear interest at 8% per annum, with interest payable annually. So long as the Credit Facility remains outstanding, the Company may, at its discretion, capitalize unpaid accrued interest into the outstanding Subordinated Loan principal. Principal on the Subordinated Loans is due and payable upon the earlier to occur of (i) an event of default under the Subordinated Financing Agreement, which includes an event of default under the Credit Facility or (ii) February 22, 2017. At March 31, 2012 and September 30, 2011, the principal balance outstanding on the Subordinated Loans was \$19.0 million and \$19.8 million, respectively. Accrued interest on the Subordinated Loans as of March 31, 2012 and September 30, 2011 was \$793,809 and \$1.6 million, respectively. The Subordinated Loans are secured by a second priority security interest in all of KES' assets.

The subordinated lenders include affiliates of Ableco, L.L.C., ALJ and three directors who currently serve on ALJ's Board of Directors. Related parties hold Subordinated Loans with an aggregate principal balance at March 31, 2012 and September 30, 2011 of \$9.5 million and \$10.0 million, respectively and accrued interest at March 31, 2012 and September 30, 2011 of \$395,179 and \$1.2 million, respectively.

13% Series A Preferred Stock

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

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

b. Liquidation and Redemption. The 13% Series A Preferred Stock 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 of March 31, 2012, the balance outstanding on the 13% Series A Preferred Stock was \$5.9 million, related accrued dividends payable were \$5.5 million and \$1.9 million of the preferred stock was held by related parties. As of September 30, 2011, the balance outstanding on the 13% Series A Preferred Stock was \$5.9 million, related accrued dividends payable were \$5.1 million and \$1.9 million of the preferred stock was held by related parties.

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

Pursuant to SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," because the 13% Series A Preferred Stock provides for mandatory redemption in cash, it is classified as a long-term liability at the redemption value at March 31, 2012 and September 30, 2011 of \$11.4 million and \$11.0 million, respectively, including cumulative dividends of \$5.5 million and \$5.1 million, respectively.

6. Commitments and Contingencies

Operating Commitments

The Mill has been operating under a Management Agreement with Pinnacle Steel, LLC ("Pinnacle") effective through September 30, 2015 (the "Management Agreement") pursuant to which 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. Pursuant to the Management Agreement, Pinnacle receives an annual fee of \$700,000, payable monthly, and bonus payments based on 16.6% of defined earnings before interest, taxes, depreciation and amortization ("EBITDA") in excess of \$6,000,000 for the fiscal years ending September 30, 2005 and thereafter. In addition, in the event the Management Agreement is terminated following a change of control of KES, an amount equal to two times the management fee payable that would be payable to Pinnacle for the prior 12-month period. Total management fee expense was \$1.4 million and \$739,562 for the six months ended March 31, 2012 and 2011, respectively. As of March 31, 2012 and September 30, 2011, the balance of accrued management fee was \$1.1 million and \$2.1 million, respectively.

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 \$5.8 million and \$3.6 million at March 31, 2012 and September 30, 2011, respectively.

The Company has a defined contribution pension plan for eligible employees who have completed one month of service and have attained the age of twenty-one. The Company's matching contribution equals 100% of each participant's elective deferral, not to exceed 6% of their eligible compensation. Participants are immediately vested in their deferred compensation and earnings thereon. The participant becomes 100% vested in the Company's matching contributions after one year of credited service. The Company may make other discretionary contributions to be determined on an annual basis. The Company's

contributions charged to operations during the six months ended March 31, 2012 and March 31, 2011 were approximately \$233,309 and \$218,886, respectively.

7. Income Taxes

For the six months ended March 31, 2012 and 2011, the Company had income tax expense due to taxable income from operations. The Company recognized federal and state income tax expense related to continuing operations for the six months ended March 31, 2012 and 2011 of \$407,425 and \$471,767, respectively.

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

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to tax examinations for periods post 2008 by federal, state and local tax authorities for various tax liabilities incurred by the parent entity and its subsidiaries, including any discontinued businesses. The amount of any tax assessments and penalties may be material and may negatively impact the Company's operations. Given the uncertainty in the amount and the difficulty in estimating the probability of the assessments arising from future tax examinations, the Company has not made any accruals for such tax contingencies.

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carry-forward. There has been significant positive evidence established by the Company to justify that only a partial valuation allowance is necessary, if any valuation is needed at all. The Company has shown consistent profitability over the past three years. Management also projects continued taxable income. Management believes it will be able to recognize a portion of its Net Operating Loss over the coming years. Management has decided to realize a net deferred tax asset for \$2.6 million as of September 30, 2011. A valuation allowance of \$88.6 million has been established against the deferred tax asset of \$91.3 million as of both March 31, 2012 and September 30, 2011.

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

At March 31, 2012, the Company had a net operating loss carry-forward for federal income tax purposes of approximately \$259 million that expires from 2020 through 2028. The use of approximately \$36 million of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

For taxable periods beginning after February 28, 2005, KES 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 months ended March 31, 2012 and 2011, the Company recognized share-based share compensation expense of \$12,180 and \$15,628, respectively, related to the issuance of restricted stock in prior periods and \$0 and \$92,414, respectively, 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. For restricted stock grants issued during the twelve months ended September 30, 2011, the Company computed volatility of 106% and a risk-free interest rate of 0.15%. For restricted stock grants issued during the twelve months ended September 30, 2010, the Company computed volatility of 135% and a risk-free interest rate of 0.32%. Volatility was computed over the most recent period commensurate with the expected term of the options and restricted stock. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options and restricted stock. The Company has not paid cash 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, 2012 is as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term Remaining
Balance outstanding as of September 30, 2011	2,800,000	\$0.39	5.5 years
Granted	0	\$0.00	
Forfeited	200,000	\$0.00	
Balance outstanding as of March 31, 2012	<u>2,600,000</u>	\$0.39	5.5 years
Options vested as of March 31, 2012	<u>2,600,000</u>	\$0.39	5.5 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, 2011, 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 carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2008 to 2011. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable

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

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

Results of Operations for the Three and Six Months Ending March 31, 2012 and 2011

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

	Three Months Ended March 31,				Six Months Ended March 31,			
	2012		2011		2012		2011	
Net Sales	\$44,384,069	100%	\$40,292,498	100%	\$83,278,959	100%	\$72,966,674	100%
Cost of sales	37,088,827	84%	33,986,987	84%	70,492,276	85%	62,828,309	86%
Gross Profit	7,295,242	16%	6,305,511	16%	12,786,683	15%	10,138,365	14%
Selling	577,269	1%	480,119	1%	1,114,728	1%	934,271	1%
General and administrative	2,020,353	5%	1,815,204	5%	3,715,837	4%	3,192,639	4%
Income from operations	4,697,620	10%	4,010,188	10%	7,956,118	10%	6,011,455	9%

For the three months ended March 31, 2012 and 2011

Net Sales

Net sales for the three months ending March 31, 2012 were \$44.4 million, an increase of \$4.1 million, or 10%, over net sales of \$40.3 million for the three months ending March 31, 2011. The increase in net sales was primarily attributable to an increase in tons invoiced of 3,031 tons, or 8.3%, and an increase of 1.7% in the average selling price per ton.

Cost of Sales

Cost of sales for the three months ending March 31, 2012 were \$37.1 million, an increase of \$3.1 million, or 9%, over cost of sales of \$34.0 million for the three months ending March 31, 2011. Cost of sales as a percentage of sales for the three months ending March 31, 2012 remained consistent as compared to the three months ending March 31, 2011 at 84%. The increase in cost of sales was primarily due an increase in the shipping volume.

Gross Profit

Gross profit for the three months ending March 31, 2012 was \$7.3 million, an increase of \$1.0 million, or 16%, over gross profit of \$6.3 million for the three months ending March 31, 2011. Gross profit as percentage of sales remained consistent for the three months ending March 31, 2012 as compared to the three months ending March 31, 2011 at 16%. The increase in gross profit was primarily attributable to higher sales volume.

Selling Expenses

Selling expenses for the three months ending March 31, 2012 were \$577,269, an increase of \$97,150, or 20% over selling expenses for the three months ending March 31, 2011 of \$480,119. Selling expenses as a

percentage of sales for the three months ending March 31, 2012 remained consistent as compared to the three months ending March 31, 2011 at 1%. Selling expenses primarily increased as a result of higher commissions related to higher sales revenue.

General and Administrative Expenses

General and administrative expenses for the three months ending March 31, 2012 were \$2.0 million, an increase of \$205,149, or 11% over general and administrative expenses of \$1.8 million for the three months ending March 31, 2011. General and administrative expenses as a percentage of sales for the three months ending March 31, 2012 remained consistent as compared to the three months ending March 31, 2011 at 5%. The increase in general and administrative expenses was primarily attributable to management incentive fees and professional fees.

For the six months ended March 31, 2012 and 2011

Net Sales

Net sales for the six months ending March 31, 2012 were \$83.3 million, an increase of \$10.3 million, or 14%, over net sales of \$73.0 million for the six months ending March 31, 2011. The increase in net sales was primarily attributable to an increase in tons invoiced of 3,771 tons, or 5.3%, and an increase of 8.3% in the average selling price per ton.

Cost of Sales

Cost of sales for the six months ending March 31, 2012 were \$70.5 million, an increase of \$7.7 million, or 12%, over cost of sales of \$62.8 million for the six months ending March 31, 2011. Cost of sales as a percentage of sales for the six months ending March 31, 2012 was 85% as compared to cost of sales as a percentage of sales for the six months ending March 31, 2011 of 86%. The increase in cost of sales was primarily due to price increases in materials, including scrap, alloys and billets and shipping volume.

Gross Profit

Gross profit for the six months ending March 31, 2012 was \$12.8 million, an increase of \$2.6 million, or 26%, over gross profit of \$10.1 million for the six months ending March 31, 2011. Gross profit as percentage of sales for the six months ending March 31, 2012 increased to 15% over gross profit as a percentage of sales for the six months ending March 31, 2011 of 14%. The increase in gross profit was primarily attributable to higher sales.

Selling Expenses

Selling expenses for the six months ending March 31, 2012 were \$1.1 million, an increase of \$180,457, or 19% over selling expenses for the six months ending March 31, 2011 of \$934,271. Selling expenses as a percentage of sales for the six months ending March 31, 2012 remained consistent as compared to the six months ending March 31, 2011 at 1%. Selling expenses primarily increased as a result of higher commissions related to higher sales revenue.

General and Administrative Expenses

General and administrative expenses for the six months ending March 31, 2012 were \$3.7 million, an increase of \$523,198, or 16% over general and administrative expenses of \$3.2 million for the six months ending March 31, 2011. General and administrative expenses as a percentage of sales for the six months ending March 31, 2012 were 5% compared to general and administrative expenses as a percentage of sales for the three months ending March 31, 2011 of 4%. The increase in general and administrative expenses was primarily attributable to management incentive fees and professional fees.

Liquidity and Capital Resources – March 31, 2012

The Company recognized net income of \$4.8 million for the six month period ended March 31, 2012 and generated a positive cash flow from operating activities of \$6.7 million for the six months ended March 31, 2012. The Company used \$6.1 million in financing activities and had an accumulated deficit of \$309.9 million and a stockholders' deficiency of \$21.7 million at March 31, 2012.

The Company recognized net income of \$11.4 million for the year ended September 30, 2011 and generated a positive cash flow from operating activities of \$8.2 million for the year ended September 30, 2011. The Company used \$7.3 million in operating activities and had an accumulated deficit of \$314.7 million and a stockholders' deficiency of \$26.6 million at September 30, 2011. The Mill relies on cash flows from operations and 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 will be adequate to fund its operations through March 31, 2013. However, to the extent that the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

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.

As of March 31, 2012, the balance outstanding on the Credit Facility was \$18.4 million (\$13.4 million under the Revolver and an aggregate of \$5.0 million under the Term Loan).

At March 31, 2012, 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, 2012 was \$186,754. ALJ has approximately \$259 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, 2012, the Company generated \$6.7 million from operating activities, primarily attributable to net income of \$4.8 million.

Financing Activities

For the six months ending March 31, 2012, the Company used \$6.1 million in financing activities primarily attributable to the partial repayment of \$3.4 million against the line of credit, partial repayment of \$1.0 million against the Term Loan, full repayment of \$535,208 against the Lake Forest term loan, interest payments of \$1.5 million on the 8% subordinated loans, and \$833,793 of principal payments against the 8% subordinated loans.

Principal Commitments

At March 31, 2012, the Company's principal commitments consisted of the following obligations:

	Payments Due by 12 Month Periods Ending March 31, <u>(in thousands)</u>					
Contractual cash obligations	<u>Total</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Thereafter</u>
8% Subordinated loans	19,792	---	---	---	---	19,792
Term loan – PNC	5,000	2,000	2,000	1,000	---	---
Revolver – PNC	13,353	---	---	13,353	---	---
Operating leases	1,741	724	724	225	45	23
Capital lease obligation	89	89	---	---	---	---
Management services agreement	2,450	700	700	700	350	---
13% Series A Preferred Stock of subsidiary subject to mandatory redemption, including accrued dividends	11,417	---	---	---	---	11,417
Total contractual cash obligations	\$ 53,842	\$ 3,513	\$ 3,424	\$ 15,278	\$ 395	\$ 31,232

At March 31, 2012, the Company did not have any material commitments for capital expenditures.

At March 31, 2012, 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 \$5.8 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, 2012.

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.

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. 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 recently experienced a significant economic downturn. This decline led to deterioration in backlog and, therefore, overcapacity in producing mills worldwide.

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

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

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

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.

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.

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

At any given time, KES may be unable to obtain an adequate supply of scrap at a price and other terms acceptable to it. Additionally, any change in KES' relationship with its scrap brokers 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.

If demand and prices for steel deteriorate, KES' sales may decline and it may be required to recognize losses on the carrying value of its inventory. KES was not required to make any lower of cost or market adjustments to the carrying value of its inventory for the six months ended March 31, 2012.

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

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

Mill management may be difficult to replace if they leave.

Management of the Mill is currently conducted by employees of Pinnacle pursuant to the Management Agreement which expires on September 30, 2015, subject to earlier termination or extension based on the performance of the Mill. 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, 2012, the Mill employed 138 individuals. If the Mill 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 \$54 million on a consolidated basis as of March 31, 2012. Subject to the limits contained in our 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 (\$13.4 million Revolver and \$5.0 million Term Loan at March 31, 2012), 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, if interest rates increased in the future by 100 basis points, based on our current borrowings as of March 31, 2012, we would incur approximately an additional \$46,000 per quarter in interest expense.

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 carry-forwards to offset our future taxable income and/or to recover previously paid taxes would be limited if we were to undergo an “ownership change” within the meaning of Section 382 of the Code.

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

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% 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 \$259 million of (pre-tax) NOLs as of March 31, 2012. The NOLs do not begin to expire until 2020 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 the lenders will grant waivers on covenant violations, if they occur. Any such event of default would have a material adverse effect on us as KES is our principal asset and cash we receive through our tax sharing payments from KES is our sole source of cash to pay our operating expenses.

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

A loss of any large customer or group of customers could materially reduce our sales and earnings. We have substantial business relationships with a few large customers. For the six month period ending March 31, 2012, the Company had 3 customers that accounted for approximately 22% of net sales. We expect to continue to depend upon a small number of customers for a significant percentage of our net sales, and cannot assure you that any of them will continue to purchase steel from us.

Our internal controls and procedures may be deficient.

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

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

There may have been liabilities that stem from YouthStream Media Networks, Inc.'s historical operations of which we are not aware. In the event any such liability becomes known, it may lead to claims against us, 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 has recently experienced a significant economic downturn. 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. We do not have the ability to uplist our stock on NASDAQ, the NYSE or the AMEX exchanges because we do not meet the qualifications for listing on those exchanges at this 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 "Rights 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, 2012, the Company had approximately \$259 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 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 are permitted to purchase up to an additional 5% of the Company's stock without triggering the Rights Plan. In addition, in its discretion, the Board may exempt certain persons whose acquisition of securities is determined by the Board not to jeopardize the Company's deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board.

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

ITEM 8. EXHIBITS

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

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****	Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of September 30, 2011, 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.
12****	Third Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated September 30, 2011.

* 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.
 **** Filed with the Company's Annual Report for the period ended September 30, 2011.

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, 2012;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended March 31, 2012.

Date: May 15, 2012

/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, 2012;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended March 31, 2012.

Date: May 15, 2012

/S/ T. Robert Christ

T. Robert Christ,
Chief Financial Officer