ALJ REGIONAL HOLDINGS, INC.

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

Annual Report for the
Fiscal Year Ended
September 30, 2010

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ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements included in this Annual Report for the year ended September 30, 2010 (the "Report") regarding future financial performance and results and other statements that are not historical facts, including, among others, the statements regarding the Company's ability to continue to fund its operations and service its indebtedness, ability to improve operating efficiencies at the steel mill, and ability to offset future income against net operating loss carryovers, constitute forward-looking statements. The words "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts," and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. Actual results or events could differ materially from those set forth or implied by such forward-looking statements and related assumptions due to certain important factors, including, without limitation, the following: (i) cyclical changes in market supply and demand for steel, (ii) general economic conditions affecting steel consumption, (iii) U.S. or foreign trade policy affecting the price of imported steel, (iv) governmental monetary or fiscal policy, (v) increased price competition brought about by excess steelmaking capacity and imports of low priced steel, (vi) continued consolidation in the steel industry, resulting in larger producers with much greater market power to affect price and/or supply, (vii) changes in the availability or cost of steel scrap, (viii) periodic fluctuations in the availability and cost of electricity, natural gas or other utilities, (ix) the occurrence of unanticipated equipment failures and plant outages or the occurrences of extraordinary operating expenses, (x) actions by the Company's competitors, (xi) margin compression resulting from the Company's inability to pass through to its customers, price increases or surcharges, (xii) the increased cost of raw materials and supplies, (xiii) loss of business from one or more major customers or end-users, (xiv) labor unrest, work stoppages and/or strikes involving the Company's workforce, those of its important suppliers or customers, or those affecting the steel industry in general, (xv) the impact on the Company's production or upon the production or needs of its important suppliers or customers of the weather, (xvi) 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, (xvii) 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, (xviii) 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, (xix) 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 (xx) the impact of regulatory or other governmental permits or approvals, litigation, construction delays, cost overruns, technology risk or operational complications upon the Company's ability to complete, start-up or continue to profitably operate a project or a new business, or to complete, integrate and operate any potential acquisitions as anticipated. The Company is also subject to general business risks, including management's success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, adverse state, federal or foreign legislation and regulation, changes in general economic factors, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters. Any forward-looking statements included in this Report are made as of the date hereof, based on information available to the Company as of the date hereof, and, the Company assumes no obligation to update any forward-looking statements.

PART A

GENERAL COMPANY INFORMATION

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, 2007. The Company's name was changed to ALJ Regional Holdings, Inc. on October 23, 2007.

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

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

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

American Stock Transfer & Trust Company is registered under the Securities and Exchange Act of 1934.

PART B

SHARE STRUCTURE AND ISSUANCE HISTORY

The Company has only two classes of securities; common stock (par value $0.01) and preferred stock (par value $0.01), the details of which are disclosed in the table below.

	Common Stock Period End Date			Preferred Stock Period End Date		
	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2010	September 30, 2009	September 30, 2008
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	49,729,574	48,665,104	47,133,061	374,556	374,556	374,556

Of the 5,000,000 shares of preferred stock authorized, 1,000,000 shares have been designated as Series A Preferred Stock, of which 374,556 shares are issued and outstanding and 550,000 shares have been designated as Series B Preferred Stock, none of which are issued and outstanding. As of September 30, 2010, there were 231 holders of record of the Company's common stock and four holders of record of the Company's Series A Preferred Stock.

Since June 24, 2005, the Company's common stock has traded on the "Pink Sheets." The Company's common stock was traded under the symbol "YSTM.PK" from June 24, 2005 through December 7, 2006. On December 8, 2006, the Company's common stock began trading under the symbol "ALJJ.PK." Prior to June 24, 2005, the Company's common stock traded on the OTC Bulletin Board under the symbol "YSTM." The following table sets forth the high and low closing bid prices for the common stock as provided by Pinksheets.com. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	High	**Low**
Fiscal 2010		
First Quarter 12/31/09	0.23	0.15
Second Quarter 3/31/10	0.30	0.15
Third Quarter 6/30/10	0.39	0.26
Fourth Quarter 9/30/10	0.32	0.23
Fiscal 2009		
First Quarter 12/31/08	0.49	0.13
Second Quarter 3/31/09	0.33	0.08
Third Quarter 6/30/09	0.19	0.10
Fourth Quarter 9/30/09	0.30	0.13

To date, the Company has not declared or paid any cash dividends on its common stock. The Board of Directors of the Company (the "Board") does not intend to declare any dividends in the foreseeable future but instead intends to retain earnings for use in the Company's business operations.

Rights Plan

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

See discussion under the heading "Stockholder Rights Plan" below.

PART C

BUSINESS INFORMATION

CURRENT BUSINESS ACTIVITIES

The Company's business is conducted through its majority-owned subsidiary, KES Acquisition Company ("KES"), which owns and operates a steel mini-mill near Ashland, Kentucky (the "Mill"). As a mini-mill producer of bar flats, the Company recycles steel from scrap, a process designed to result in lower production costs than those of integrated steel mills, which produce steel by processing iron ore and other raw materials in blast furnaces. Bar flats are produced to a variety of specifications and fall primarily into two general quality levels - merchant bar quality steel bar flats ("MBQ Bar Flats") for generic types of applications, and special bar quality steel bar flats ("SBQ Bar Flats"), where more precise customer specifications require the use of various alloys, customized equipment and special production procedures to insure that the finished product meets critical end-use performance characteristics.

The Mill manufactures over 2,600 different bar flat items which are sold to volume niche markets, including original equipment manufacturers ("OEMs"), cold drawn bar converters, steel service centers and the leaf-spring suspension market for light and heavy-duty trucks, mini-vans and utility vehicles. The Mill was specifically designed to manufacture wider and thicker bar flats, up to three inches in thickness and twelve inches in width, that are required by these markets. In addition, the Mill employs a variety of specially designed equipment which is necessary to manufacture SBQ Bar Flats to the specifications of the Mill's customers.

The Company's business strategy is to increase its share of the SBQ Bar Flat market and to expand into related niche market applications where it can supply products for special customer needs. The Company plans to expand its business primarily by increasing the number of products it sells to existing customers and the development of new customers.

Pursuant to a Management Services Agreement (the "Management Agreement") with Pinnacle Steel, LLC ("Pinnacle"), the operations of the Mill are managed by Pinnacle. 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. The Management Agreement is effective through May 28, 2014, subject to earlier termination based on the financial performance of the Mill. Further, the term of the Management Agreement may be extended for an additional year, up to a maximum of three years, for each fiscal year ending September 30, 2010, 2011 and 2012 in which EBITDA exceeds $15,000,000. Pinnacle has significant experience and expertise in the steel industry.

Industry Conditions

The U.S. steel industry experienced a significant economic downturn in late 2008 that continued through 2010. This decline has led to deterioration in backlog and has created a significant decline in the average capacity utilization in producing mills worldwide.

The U.S. steel industry has historically been and continues to be highly cyclical in nature, influenced by many factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, worldwide steel demand, and levels of steel imports. The steel industry has also been affected by various company-specific factors, such as a company's ability or inability to adapt to and deal with technological change, plant inefficiency and high labor costs. The U.S. has traditionally been a net importer of steel.

The U.S. steel industry experienced many changes during 2003 through 2010 as a result of consolidation. Consolidations and similar developments caused formerly idled or inefficient production facilities to come back into the market with substantially lower capital costs, with renegotiated labor agreements containing fewer work rules and reduced labor costs, and shorn of many previously burdensome health care and retirement legacy costs and other liabilities. The result of this restructuring and consolidation, which we expect to continue, is a less competitive U.S. steel market, with a narrowing of production cost differentials between mini-mills and some of the integrated mills. Moreover, with the integrated mills' lesser dependence on scrap as a percentage of their metallic melt mix than the mini-mills, the traditional mini-mill cost advantage over integrated mill steel making may be reduced or eliminated when scrap prices are at high levels.

Manufacturing Operations

The Mill recycles steel by melting steel scrap in a 50-ton electric arc furnace. The molten steel is then taken to the ladle metallurgy facility where a variety of alloys are added to make different grades of steel in accordance with customer specifications. The refined molten steel is

then poured into a continuous caster to produce continuous strands of steel with cross-sectional dimensions ranging from approximately 16 to 72 square inches. The Mill can utilize up to four continuous strands in producing certain sizes. The strands are cut to produce billets of specified length which are reheated to approximately 2,300 degrees Fahrenheit and fed through a series of roll stands to reduce their size and form them into steel bar sections. These sections emerge from the rolling mill, are uniformly cooled on a cooling bed, and are cut to lengths specified by the customer. The cut bar flats are stacked into bundles ready for shipment.

The current production capacity of the Mill for finished products is approximately 200,000 short-tons per year. For the fiscal year ending September 30, 2010, the Mill had production capacity of 200,000 tons and sold 126,554 tons of finished goods, or 63% of its rolling capacity.

The Company transports its products by common carrier, generally shipping by truck and by rail. The Mill has railroad sidings at its facilities.

Primary Markets and Products

OEM Markets. The Company supplies bar flats to OEMs in the following markets: metal building, mower and plow blades, agricultural equipment, construction/fabricating, railroad cars, industrial chain manufacturers and trailer support beam flange manufacturers. The products furnished to these markets are primarily SBQ Bar Flats along with a mixture of MBQ Bar Flats. One of the key characteristics of the OEM markets is lot order size, which tend to be larger than the orders received from other markets, such as steel service centers. These larger orders typically result in improved operating efficiencies and longer term relationships with customers.

Cold Drawn Bar Converters Market. The Company sells its expanded range of SBQ hot rolled bar products to cold drawn bar manufacturers. The Company's product range, 1/4" through 3" in thickness and 1 3/4" through 12 1/2" in width, enables it to supply practically all the sizes needed by the converters. The converters remove the scale from the hot rolled bar and draw it through a die. The drawing reduces the cross section, improves surface, and produces a more exacting tolerance bar. The end product is sold either through distributors or directly to OEMs.

Steel Service Center Market. A significant percentage of all steel shipments to the end-user are distributed through steel service centers, making this the largest single market for steel manufacturers. The steel service center market encompasses all warehouses and distributors who buy steel to stock for their end use customers who buy in smaller volume than OEMs. The Company sells both MBQ and SBQ Bar Flats into this market.

Leaf-Spring Suspension Market. High tensile SBQ spring steel is produced to customer and industry specifications for use in leaf-spring assemblies. These assemblies are utilized in light, medium and heavy duty trucks, trailers, mini-vans and four-wheel drive vehicles with off-road capability. The trend toward tapered leaf-spring products and air-ride suspension continues. These products use somewhat less steel but they are manufactured from larger cross section bar flats that match the Company's manufacturing strengths.

Customers

The Company sells to over 300 customers, one of whom accounted more than 10% of sales for the twelve month period ending September 30, 2010. During the twelve month period ending September 30, 2010, the Company's ten largest customers accounted for approximately 47% of its net sales, of which $4.3 million was included in accounts receivable at September 30, 2010. The Company's largest customer accounted for 14% of its consolidated net sales during the twelve months ended September 30, 2010.

The Company's foreign sales as a percentage of total sales were 2% for the twelve month period ending September 30, 2010. These sales consisted of shipments to Canada and Mexico.

Marketing

The Company markets its products to new and existing customers in the United States and in certain foreign markets. Sales efforts are primarily performed by in-house sales personnel and augmented with manufacturers' representative companies.

Competition and Other Market Factors

The domestic and foreign steel industries are characterized by intense competition. The Company competes with steel-producing mills of similar size and operation within its market region and also larger mills producing similar products, such as Nucor Corporation, Gerdau Ameristeel, Gautier Steel, Steel Dynamics and Mittal Steel. The Company believes that the principal competitive factors affecting its business are quality, service, price and geographic location.

Raw Materials

Scrap and Billets

The principal raw material used in the Mill is ferrous scrap. Ferrous scrap is derived from, among other sources, discarded automobiles, appliances, structural steel, railroad cars and machinery. The purchase price of scrap is subject to market conditions that are beyond the control of the Company. Starting during the latter part of 2002 and continuing through August 2008, the price of scrap rose sharply to historic highs, largely as a result of foreign scrap demand, particularly from China and Turkey, a weak U.S. dollar that makes U.S. scrap exports more attractive, and relatively static if not limited scrap availability in the U.S. However, in September 2008 the price of scrap dropped dramatically and scrap prices continued to be volatile through 2010.

The Mill is located in an area where scrap is generally available and therefore the Mill typically maintains less than one month of scrap supply. Historically, the Mill has generally been successful in passing on scrap cost increases through price increases, however, the effect of steel imports, market price competition, and market demand have limited the Company's ability to increase prices starting in September 2008 and continuing through 2010. As of September 30, 2008, the Company significantly decreased the carrying value of its inventory using the lower of cost or market method. The Company recognized a $3.2 million loss on the carrying value of inventory as of September 30, 2008. The Company has not been required to make any lower of cost or market adjustments for the years ended September 30, 2010 or 2009.

The Company purchases approximately 65% of its billets from the open market. During the twelve month period ending September 30, 2010, the Company had three suppliers that accounted for 78% of billet purchases. Each of the three suppliers individually provided approximately 61%, 9%, and 8% of billet purchases, respectively, of which $1.7 million was included in accounts payable at September 30, 2010. The Company also purchases raw materials. For the fiscal year ending September 30, 2010, the Company had three suppliers that accounted for approximately 65% of raw materials purchases, of which approximately $1.5 million was included in accounts payable at September 30, 2010.

Energy Resources

Electricity. The Company has an electric service contract with Kentucky Power Company d/b/a American Electric Power, which is terminable upon 12 months' prior written notice.

Gas. The Mill uses approximately 1.5 decatherms of natural gas per day. A decatherm is equivalent to 1 million BTUs or 1,000 cubic feet of natural gas. The Company has a pipeline delivery contract with Columbia Gas of Kentucky, which delivers natural gas to the Mill from providers primarily located on the Gulf Coast.

Other. The Mill uses oxygen, nitrogen and argon for production purposes. These materials are purchased from Air Products & Chemicals, Inc.

Employees

As of September 30, 2010, ALJ had two employees, its Chief Executive Officer and its Chief Financial Officer, performing services dedicated primarily to general corporate and administrative matters. As of September 30, 2010, the Mill employed 140 individuals, approximately 80% of whom are members of the United Steelworkers of America. In May 2008, the Mill renegotiated its collective bargaining agreement, which now expires in May 2013. We believe that the wage rates and benefits at the Mill are competitive with other mini-mills.

Property

The Company maintains corporate offices at 244 Madison Avenue, PMB 358, New York, NY 10016.

The Mill's operations are located on approximately 55 acres of land near Ashland, Kentucky, next to an interstate highway and a rail line.

Environmental and Regulatory Matters

The operations of the Mill are subject to substantial and evolving local, state and federal environmental, health and safety laws and regulations concerning, among other things, emissions to the air, discharges to surface and ground water and to sewer systems, and the generation, handling, storage, transportation, treatment and disposal of toxic and hazardous substances. In particular, the Mill is dependent upon both state and federal permits regulating discharges into the air or into the water in order to be permitted to operate its facilities.

RECENT DEVELOPMENTS

May 2010 Restructuring and Repurchase Transactions

On May 28, 2010, KES entered into the Revolving Credit, Term Loan and Security Agreement (the "Loan Agreement") by and among KES, the financial institutions from time to time a party thereto (the "Senior Lenders") and PNC Bank, National Association ("PNC"), as a lender and as agent for the lenders. The Loan Agreement provides for an asset-based revolving credit line of $23 million (the "Revolver") and a term loan of $4 million (the "Term Loan", and together with the Revolver, the "Credit Facility"). The Credit Facility has a three year term. The Term loan amortizes at $500,000 per quarter over eight quarters. Both the Revolver and the Term Loan bear interest at variable rates based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. In addition, the Credit Facility contains customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios.

Substantially all of the Company's assets are owned by KES. Pursuant to the terms of the Credit Facility and other financing agreements described herein, ALJ is currently limited in its ability to receive cash distributions from KES but is permitted to receive tax sharing payments as described below. For taxable periods beginning after February 28, 2005, KES has been included in the consolidated federal income tax return filed by ALJ as the common parent. KES has entered into a Tax Sharing Agreement with ALJ pursuant to which it has agreed to pay ALJ an amount equal to 50% of its respective "separate company tax liability" (as such term is defined in the Tax Sharing Agreement). ALJ has approximately $271 million in net operating loss carryovers currently available to offset the consolidated federal taxable income of the affiliated group in the future. As of September 30, 2010, ALJ has accumulated $1,138,000 of tax sharing payments related to the fiscal year ending September 30, 2010.

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

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

On May 28, 2010, KES repurchased 6,564 shares of its 13% Series A Preferred Stock (the "Repurchased Stock") plus accrued dividends thereon for aggregate consideration of $5.9 million (the "Stock Repurchase"). The Repurchased Stock had a face value of approximately $6.6 million plus accrued dividends of approximately $3.9 million. The Stock Repurchase was effected pursuant to stock repurchase agreements between KES and the holders of the Repurchased Stock dated May 28, 2010. The remaining Series A Preferred Stock continues to have a 13% cumulative dividend. The 13% Series A Preferred Stock contains a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and is redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of KES' full and complete repayment of the Subordinated Loans. As of September 30, 2010, the balance outstanding on the 13% Series A Preferred Stock was $5.9 million and related accrued dividends payable were $4.3 million.

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

On May 28, 2010, ALJ reached an agreement with the holders of its 4% preferred stock to extend the repayment of the stock to June 30, 2014.

Since the acquisition of the Mill by KES, the Mill has been operating under a Management Services Agreement (the "Pinnacle Agreement") with Pinnacle Steel, LLC ("Pinnacle"). The principals of Pinnacle have significant experience and expertise in the steel industry. In connection with a 2007 restructuring, the Pinnacle Agreement was extended through October 2013 and in connection with the May 28, 2010 restructuring, the Pinnacle Agreement was extended through May 2014, subject to earlier termination based on the financial performance of the Mill. Pinnacle is entitled to a monthly management fee and a management incentive fee as provided in the Pinnacle Agreement.

July 2009 Refinancing Transaction

On July 20, 2009, KES entered into the Subordinated Financing Agreement by and among KES, the lenders a party thereto and Ableco as collateral and administrative agent (the "Subordinated Financing Agreement"). Pursuant to the Subordinated Financing Agreement KES refinanced certain subordinated promissory notes that were originally issued in March of 2005 in connection with ALJ's acquisition of KES (the "Sub Notes"). Specifically, the Sub Notes were exchanged for term loans in the same amounts (including interest paid-in-kind) issued pursuant to the Subordinated Financing Agreement (the "Subordinated Loans"). The Subordinated Financing Agreement did not impact the amount of KES' indebtedness with respect to the subordinated debt, but provides for certain rights and remedies in favor of the subordinated lenders, subject to the rights of the senior lenders, including a second priority security interest in substantially all of KES' assets. By comparison, the terms of the Sub Notes and related loan agreement, provided for covenants and a security interest only once the senior debt

was paid in full. The subordinated lenders included Ableco, ALJ and Jess Ravich, Hal Byer and Scott Fritz, all of whom serve on the Board. Ableco required that the Sub Notes be exchanged as a condition to the modifications to the 2007 Credit Facility requested by KES.

November 2008 Repurchase Transaction

On November 10, 2008, ALJ repurchased $500,000 in principal and $213,810 of accrued interest on its 4% Note. The purchase price paid for the repurchase was $365,000, which has comprised of $250,000 in cash and 500,000 shares of the Company's common stock (valued at $115,000 or $0.23 per share based on the closing price of ALJ's common stock as quoted on the Pink Sheets on November 10, 2008).

May 2008 Repurchase Transaction

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

Stockholder Rights Plan

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

At September 30, 2010, ALJ had approximately $271 million in net operating losses and the use of such losses to offset federal income tax would be limited, if ALJ experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of ALJ's stock by value increase their collective ownership of the aggregate amount of ALJ'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, ALJ has declared a dividend of one preferred share purchase right for each share of its common stock outstanding as of the close of business on May 21, 2009. Pursuant to the Rights Plan, any stockholder or group that acquires beneficial ownership of 4.9 percent or more of ALJ's outstanding stock (an "Acquiring Person") without the approval of the Board would be subjected to significant dilution of its holdings. Any existing stockholder holding 4.9% or more of ALJ's stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of ALJ; provided, however, that existing stockholders actually known to ALJ to hold 4.9% or more of its stock as of April 30, 2009 will be permitted to purchase up to an additional 5% of ALJ'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 ALJ's deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board. The Rights Plan was approved by ALJ's stockholders at the annual meeting of stockholders on June 4, 2009.

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

Related Party Transactions

Mr. Ravich, who is the Chairman of the Board of ALJ and a director of KES holds: (1) Subordinated Loans under the Subordinated Financing Agreement, (2) Series B Common Stock of KES, (3) either directly or through his family trusts, 7,325,857 shares of ALJ's common stock, (4) 1,722,218 shares issuable upon exercise of currently vested options or warrants within 60 days of November 30, 2010, and (5) 19,188 restricted shares vesting within 60 days of November 30, 2010. As part of the restructuring as discussed above, the Company entered into a Fee and Reimbursement Agreement dated May 28, 2010 with the Guarantors (the "Fee and Reimbursement Agreement"). Pursuant to the Fee and reimbursement Agreement, the Company paid the Guarantors a one time fee of $100,000 at the closing on May 28, 2010 and will pay an additional $50,000 on the first anniversary date of the closing. The terms of the guaranty and the Fee and Reimbursement Agreement were approved by the independent members of the Board.

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

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

On June 20, 2008, the Board approved a director compensation program providing for an annual payment of $12,500 in cash and $12,500 in stock to each director, to be granted at the current fair market value. On June 20, 2008, pursuant to this program, each member of the Board received a restricted stock grant of 21,186 shares of common stock at the fair market value of $0.59 per share on that date. On June 4, 2009, pursuant to the program, each member of the Board received a restricted stock grant of 69,444 shares of common stock at the fair market value of $0.18 per share on that date. Mr. Byer exchanged his June 4, 2009 grant of 69,444 restricted shares for Mr. Ravich's $12,500 cash compensation. The restricted stock grants issued pursuant to the director compensation program vest in equal monthly installments over twelve months and will become fully vested on the first anniversary of the grant date. Vesting is contingent upon continued service on the Board. The Company will recognize non-cash compensation expense of approximately $28,000 on a pro rata basis over the next twelve months for the June 4, 2009 restricted stock grants. On June 23, 2010, pursuant to the program, each member of the Board received a restricted stock grant of 32,894 shares of common stock at the fair market value of $0.38 per share on that date. Vesting is contingent upon continued service on the Board. The Company will recognize non-cash compensation expense of approximately $31,250 on a pro rata basis over the next twelve months for the June 23, 2010 restricted stock grants. Directors may also be reimbursed for any out-of-pocket expenses they incur in the performance of their responsibilities for us.

June 2008, the Board also issued options stock options to T. Robert Christ, ALJ's Chief Financial Officer, to purchase an aggregate of 200,000 shares of common stock, exercisable at the fair market value of $0.59 per share, vesting on a pro rata basis over a period of three years. The Company will recognize a non-compensation expense of $71,000 on a pro rata basis over the next three years.

Minority Interests

A portion of the net income for KES is allocable to minority shareholders. This amount was 19.79% for the years ended September 30, 2010, 2009 and 2008. For the twelve months ending September 30, 2010, 2009 and 2008 the net income allocated to minority interest – related party was approximately $1.3 million, $65,000, and $1.3 million, respectively.

RISK FACTORS

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

Risks Related to Our Business

Payments under our Tax Sharing Agreement are uncertain.

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

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

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

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

The U.S. steel industry experienced a significant economic downturn beginning in late 2008 and continuing through 2010. This decline led to deterioration in backlog and, therefore, overcapacity in producing mills worldwide.

The price of steel and steel products may fluctuate significantly due to many factors beyond our control. Such fluctuation would directly affect our levels of production, sales and earnings. The domestic steel industry has been highly cyclical in nature, influenced by a combination of factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, levels of steel imports and applicable tariffs. The demand for steel products is generally affected by macroeconomic fluctuations in the U.S. and the global economies in which steel companies sell their products. We have experienced a drop in demand for our products as a result of the

current economic downturn and further economic decline, stagnation, or currency fluctuations could further decrease the demand for products or increase the amount of imports of steel into the U.S., which could negatively impact our sales, margins and profitability. In addition, prolonged weakness in any industries in which we sell our products could materially adversely affect our results of operations and cash flows.

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

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

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

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

Competition from other materials may materially adversely affect our business.

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

Environmental regulations impose substantial costs and limitations on operations.

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

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

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

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

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

The dramatic decrease in steel industry demand commencing late in 2008 has resulted in sharply reduced demand for raw materials, particularly for scrap steel. The rapid and steep declines in scrap prices has also resulted in similar drops in billet and finished goods pricing, which has adversely impacted our sales which declined sequentially from $52.2 million in the fourth quarter of fiscal 2008 to $32.4 million in the fourth quarter of fiscal 2010. Further, in the fourth quarter of 2008, as a result of sharply lower inventory costs, we decreased the carrying value of inventory to account for the lower of cost or market. If demand and prices for steel continue to deteriorate, our sales may continue to decline and we may be required to recognize further losses on the carrying value of our inventory. We were not required make any lower of cost or market adjustments to the carrying value of our inventory for the twelve months ended September 30, 2010.

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

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

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

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

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

Mill management may be difficult to replace if they leave.

Management of the Mill is currently conducted by employees of Pinnacle Steel, LLC pursuant to the Pinnacle Agreement which expires May 2014. Our operations and prospects depend in large part on the performance of our Mill management team. The loss of the services of one or more members of our Mill management team or the inability to attract, retain and maintain qualified additional Mill management personnel could harm our business, financial condition, results of operations and future prospects.

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

As of September 30, 2010, the Mill employed 140 individuals. If our employees were to strike or we faced similar work stoppages we would experience a disruption of production at our facility, which would cause an adverse impact on our operating costs and results of operations.

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

Our total debt obligations (including preferred stock considered as debt obligations in our consolidated financial statements) are approximately $64 million on a consolidated basis as of September 30, 2010. Subject to the limits contained in the Credit Facility and Subordinated Financing

Agreement, we may also incur additional debt in the future. In addition to interest and principal payments on our outstanding debt and dividends and repurchase obligations with respect to our preferred stock, we, and in particular KES, have other demands on our cash resources, including, among others, capital expenditures that may arise from time to time and operating expenses.

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

- Except for periodic tax sharing payments, all of KES' cash flows must be used to fund its operations and service its debt obligations, including interest, dividends, required principal payments, and required preferred stock repurchase obligations, and therefore is not available for use in KES' business, including working capital needs;
- Our ability to obtain additional debt financing for working capital, capital expenditures, general corporate purposes or other purposes could be impaired by the terms and amount of KES' existing debt and if additional funding is required we may be required to seek additional equity financings, which may have a dilutive impact on our existing stockholders or may not be unavailable on acceptable terms or at all;
- Our failure to comply with restrictions and covenants contained in the terms of our debt agreements, in particular the Credit Facility and Subordinated Financing Agreement, could lead to a default which could cause all or a significant portion of our debt to become immediately payable; if such default is not cured or waived, our lenders could foreclose on our assets, which could result in a complete loss of our stockholders' investments;
- Restrictions in our debt agreements could limit our flexibility in planning for, or reacting to, changes in the industries in which we compete;
- Our level of indebtedness could place us at a competitive disadvantage compared to our competitors, some of which have less debt service obligations and greater financial resources than we do; and
- Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions.

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

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

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

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

A portion of our current borrowings, namely the Credit Facility ($13.1 million Revolver and $3.5 million Term Loan at September 30, 2010), and potential future borrowings, are and may continue to be at variable rates of interest, thus exposing us to interest rate risk. If interest rates increase, our debt service obligations on our variable rate indebtedness would increase even if the amount borrowed remained the same, resulting in a decrease in our net income. For example, pursuant to the recent amendment to the Credit Facility the interest rate on KES' Revolver and Term Loan increased by 100 basis points, which will result in an increase in our quarterly interest expense of approximately $41,500, based on the loan balances at September 30, 2010.

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

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

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

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders, our ability to use our NOLs and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We had approximately $271 million of (pre-tax) NOLs as of September 30, 2010. The NOLs do not begin to expire until 2012 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

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

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

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

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

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

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

KES' ability to borrow under 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 Senior Lenders will grant waivers on covenant violations, if they occur. Any such event of default would have a material adverse effect on us as KES is our principal asset and cash we receive through our tax sharing payments from KES is our sole source of cash to pay our operating expenses.

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

A loss of any large customer or group of customers could materially reduce our sales and earnings. We have substantial business relationships with a few large customers. In the fiscal year ended September 30, 2010, our top ten customers accounted for approximately 47% of our consolidated net sales. During this period, our largest customer accounted for approximately 14% of our consolidated net sales. We expect to continue to depend upon a small number of customers for a significant percentage of our net sales, and cannot assure you that any of them will continue to purchase steel from us.

Our internal controls and procedures may be deficient.

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

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

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

We may encounter difficulties in acquiring other companies.

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

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

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

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

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

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

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

The U.S. steel industry experienced a significant economic downturn in late 2008, which has continued into 2010. This decline has led to deterioration in backlog and, therefore, excess capacity in producing mills worldwide, which has already resulted in a corresponding decrease in our sales and may adversely impact our sales, financial condition and results of operations going forward. Further, while we operate in the U.S., the global steel industry has suffered significant deterioration in demand, which has had an adverse affect on steel prices in the U.S.

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

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

Risks Related to our Common Stock

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

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

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

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

Volatility in the market price of our common stock.

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

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

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

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

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

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

We have a stockholder rights plan (the "Plan") designed to preserve the value of certain tax assets primarily associated with our NOLs and built in losses under Section 382. At September 30, 2010, the Company had approximately $271 million in net operating losses and the use of such losses to offset federal income tax would be limited, if the Company experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company's stock by value increase their collective ownership of the aggregate amount of the Company's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

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

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

PART D

MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Directors and Officers Biographies and Board Structure.

The following table sets forth certain information regarding the Company's directors and executive officers.

Name	Age	Position
John Scheel	55	Chief Executive Officer, President and Class I Director
T. Robert Christ	41	Chief Financial Officer
Hal G. Byer	53	Class II Director
Robert Scott Fritz	53	Class I Director
Olimpio Lee Squitieri	52	Class II Director
Jess M. Ravich	53	Class III Director

The Company's Board of Directors is divided into three classes, with one class being elected each year and members of each class holding office for a three-year term. All of the directors serve until their terms expire and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal.

In June 2010, the Company re-elected each of Robert Scott Fritz and John Scheel as a Class I Director with a term expiring 2013. The Class II and Class I directors terms expire in 2011 and 2012, respectively.

The Board of Directors does not have separate audit, compensation or nominating committees.

The following is a brief summary of the backgrounds of the Company's directors and executive officers.

John Scheel. Mr. Scheel has served as the President and Chief Executive Officer of the Company since August 31, 2006 and has served as a director of the Company since September 13, 2006. Mr. Scheel also currently serves as the Chief Operating Officer of Pinnacle Steel, LLC ("Pinnacle") and, pursuant to the Management Agreement between the Company's subsidiary, KES and Pinnacle, as plant manager of the Mill. Mr. Scheel has been plant manager of the Mill since January of 2004 and has been Chief Operating Officer of Pinnacle since September 2002. Prior to joining Pinnacle, Mr. Scheel was Vice President of Operations for Birmingham Steel Management from July 2001 to September 2002. Mr. Scheel holds both B.S. and M.S. degrees in Metallurgical Engineering from Purdue University and a Master of Business Administration in Finance and International Business from Xavier University.

T. Robert Christ. Mr. Christ has served as the Chief Financial Officer and Secretary of the Company since July 2008. Mr. Christ was previously Chief Financial Officer for Electronic Recyclers International, Inc., a nationwide recycler of e-waste. From 1999 to 2006, Mr. Christ served as Chief Operating Officer and Chief Financial Officer for Aristotle International Inc., a political software company and age and identity verification company. From 1997 to 1999, Mr. Christ served as Chief Financial Officer for Pulsar Data Systems, a government contractor that merged with Litronic Inc. and went public in 1999. From 1994 to 1997, Mr. Christ served as controller for the Centech Group Inc., a government contractor, and from 1991 to 1993, Mr. Christ held various positions with Rubino and McGeehin, Chtd. a public accounting firm. Mr. Christ holds a B.B.A. degree in Accounting from James Madison University and passed the C.P.A. exam in 1991.

Hal G. Byer. Mr. Byer has served as a director of the Company since January 30, 2003. Mr. Byer joined Houlihan Lokey, as a Vice President in their Financial Sponsors Coverage Group in December 2009. From May 2001 to November 2009 Mr. Byer was a Senior Vice President of Libra Securities, LLC ("Libra Securities"), a broker-dealer registered with the Securities and Exchange Commission and an NASD member. From 1995 to 2003, Mr. Byer was Chief Executive Officer of Byer Distributing Co., a snack food distribution company. From 2000 to 2003, Mr. Byer was also the Chief Operating Officer of eGreatcause.com, an internet start-up involved in fundraising for charitable and non-profit organizations that is no longer active.

Robert Scott Fritz. Mr. Fritz has served as a director of the Company since January 30, 2003. Since May 2002 Mr. Fritz has served as the president of Robert Fritz and Sons Sales Company, a food broker and paper distributor that he owns in New Jersey. Mr. Fritz holds a B.S. in Business from Fairleigh Dickinson University.

Olimpio Lee Squitieri. Mr. Squitieri has served as a director of the Company since June 2008. Since January 2001, Mr. Squitieri has served as a partner at Squitieri & Fearon, LLP. From 1988 through January 2001, Mr. Squitieri was a partner at the firm formerly known as Abbey, Gardy & Squitieri, LLP. Since December 2006, Mr. Squitieri has served as a director and vice president of Sixty Sutton Corp. Mr. Squitieri

also serves as a director of SCAN New York, a non-profit organization. Mr. Squitieri has a B.A. from Rutgers University and a J.D. from New York Law School.

Jess M. Ravich. Mr. Ravich has served as a director of the Company since June 26, 2006 and the Chairman of the Board since August 31, 2006. Mr. Ravich joined Houlihan Lokey as Managing Director in December 2009. Prior to that, Mr. Ravich was Chairman and Chief Executive Officer of Libra Securities, a Los Angeles based investment banking firm that focuses on capital raising and financial advisory services for middle market corporate clients and the sales and trading of debt and equity securities for institutional investors. Prior to founding Libra Securities in 1991, Mr. Ravich was an Executive Vice President at Jefferies & Co., Inc. and a Senior Vice President at Drexel Burnham Lambert. Mr. Ravich serves on the board of directors, audit committee and compensation committee of Cherokee Inc. (Nasdaq GS: CHKE). In addition to his professional responsibilities, Mr. Ravich is also on the Undergraduate Executive Board of the Wharton School and the Board of Trustees of the Archer School for Girls. Mr. Ravich has both a B.S and M.S. from the Wharton School and a J.D. from Harvard University.

During the last five years, none of the Company's directors or executive officers has been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

Officer's Compensation

The following table sets forth the total compensation paid or accrued by the Company to the named executive officers for services rendered during the last three fiscal years ending September 30, 2010. No other executive officers received total annual compensation exceeding $100,000 during such fiscal years.

		Annual Compensation		Long-Term Compensation	
	Year	Salary	Bonus	Securities Underlying Options/SARs	All Other Compensation
John Scheel (1)	2010	$ $60,000	0	32,894	$ 12,500
Chief Executive Officer, Director	2009	$ $60,000	0	69,444	$ 12,500
	2008	$ $60,000	0	114,936	$ 50,000
T. Robert Christ (2)	2010	$ $ 60,000	0	0	0
Chief Financial Officer and Secretary	2009	$ $ 60,000	0	0	0
	2008	$ $ 20,000	0	200,000	0

(1) Mr. Scheel has served as President and Chief Executive Officer since August 31, 2006. Mr. Scheel received $50,000 as director compensation for 2008 and $12,500 in 2009 and 2010. Mr. Scheel's annual salary is $60,000. Mr. Scheel also receives compensation from Pinnacle, which manages the Mill.

(2) Mr. Christ served as Chief Financial Officer and Secretary since June 20, 2008. Mr. Christ's annual salary is $60,000.

Director Compensation

Prior to May 6, 2008, the Company had no standard arrangements for compensation of directors or officers and had compensated individuals serving for the Company on a case-by-case basis. On May 6, 2008, the Board resolved to address the lack of a standard compensation

arrangement for directors. As part of such resolution, in consideration for their past uncompensated services as members of the Board, the Board provided for a one-time cash payment to each Director of $37,500 and also issued to each Director 93,750 shares of restricted common stock at a fair market value of $0.40 per share, which provided for immediate vesting. The Board of Directors also approved an additional stock option grant to Mr. Ravich to purchase 2,000,000 shares of common stock for his continued services to the Company as Chairman of the Board. The option was issued at a fair market value of $0.40 per share and vests in equal monthly installments over a three-year period, subject to immediate acceleration in full upon a change in control of the Company.

On June 20, 2008, the Board of Directors approved a director compensation program providing for an annual payment of $12,500 in cash and the issuance to each director of shares of restricted common stock with a value of $12,500 based on the fair market value at the time of grant. The initial restricted stock grant to the directors under this program was a grant of 21,186 shares on June 20, 2008 at the fair market value at that time of $0.59 per share of the Company. On June 4, 2009, pursuant to the program, each member of the Board received a restricted stock grant of 69,444 shares of common stock at the fair market value of $0.18 per share on that date. Mr. Byer exchanged his June 4, 2009 69,444 restricted share grant for Mr. Ravich's $12,500 cash compensation. On June 23, 2010, pursuant to the program, each member of the Board received a restricted stock grant of 32,894 shares of common stock at the fair market value of $0.38 per share on that date. The restricted stock issued pursuant to the director compensation program vests monthly over a twelve month period and is contingent upon continued service on the Board of Directors. Directors may be reimbursed for any out-of-pocket expenses they incur in the performance of their responsibilities for us.

In connection with his assuming the role of Chief Financial Officer, in June 2008, the Board issued stock options to Mr. Christ to purchase an aggregate of 200,000 shares of common stock, exercisable at the fair market value of $0.59 per share, vesting on a pro rata basis over a period of three years.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of November 30, 2010, the beneficial ownership of common stock with respect to (i) each person who was known by the Company to own beneficially more than 5% of the outstanding shares of common stock, (ii) each director, (iii) each of the Company's current executive officers, and (iv) all directors and executive officers as a group. As of November 30, 2010, the Company had 49,729,574 shares of common stock issued and outstanding, which was the only class of voting securities authorized or outstanding.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Executive Officers and Directors:		
Robert Scott Fritz, Director 711 Sycamore Avenue Red Bank, NJ 07701	719,119(2)	1.45%
Hal G. Byer, Director c/o Houlihan Lokey 1930 Century Park West Los Angeles, CA 90067	514,990(3)	1.04%
Olimpio Lee Squitieri, Director 32 East 57th Street, 12th Floor New York, NY 10022	1,570,618(4)	3.16%
Jess M. Ravich, Chairman of the Board c/o Houlihan Lokey 1930 Century Park West Los Angeles, CA 90067	9,067,263(5)	17.62%
John Scheel, Director and Chief Executive Officer c/o KES Acquisition Company 2704 South Big Run Road Ashland, Kentucky 41105	703,568(6)	1.41%
T. Robert Christ, Chief Financial Officer P.O Box 99418 San Diego, CA 92169	166,667(7)	0.34%

5% Stockholders:		
Joseph Corso Jr. 167 Zock Road Cuddlebackville, NY 12729	10,373,000(8)	20.86%

(1) Consistent with regulations of the U.S. Securities and Exchange Commission, shares of common stock issuable upon exercise of derivative securities by their terms exercisable within 60 days of November 30, 2010 are deemed outstanding for purposes of computing the percentage ownership of the person holding such securities but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to the knowledge of the Company, the persons and entities named in this table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(2) Includes 699,931 shares held of record and 19,188 restricted shares vesting within 60 days of November 30, 2010.

(3) Includes 495,802 shares held of record and 19,188 restricted shares vesting within 60 days of November 30, 2010.

(4) Includes 1,551,430 shares held of record and 19,188 restricted shares vesting within 60 days of November 30, 2010.

(5) Includes 7,325,857 shares held by the Ravich Revocable Trust of 1989 (the "Ravich Trust"), 1,722,218 shares issuable upon exercise of currently vested options or warrants, 19,188 restricted shares vesting within 60 days of November 30, 2010.

(6) Includes 484,380 shares held of record, 200,000 shares issuable upon exercise of currently vested options, and 19,188 restricted shares vesting within 60 days of November 30, 2010.

(7) Includes 155,556 shares issuable upon exercise of currently vested options, and 11,111 shares issuable upon exercise of options vesting within 60 days of November 30, 2010.

(8) Reflects amount derived from this person's Schedule 13G as filed with the Securities and Exchange Commission in January 2009 and information provided to the Company by Mr. Corso.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See the heading "Related Party Transactions" under Part C – Business Information above.

FINANCIAL INFORMATION

The following financial statements of the Company are included at the end of this Report:

Consolidated Balance Sheets —

Years Ended September 30, 2010, 2009, and 2008

Consolidated Statements of Operations —

Years Ended September 30, 2010, 2009 and 2008

Consolidated Statement of Stockholders' Deficiency —

Years Ended September 30, 2010, 2009 and 2008

Consolidated Statements of Cash Flows —

Years Ended September 30, 2010, 2009 and 2008

Notes to Consolidated Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's financial statements.

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. As of September 30, 2008, the Company recognized a $3.2 million loss associated with the value of inventory, as a result of a lower market value than cost. The

average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs. There were no lower of cost or market adjustments required as of September 30, 2010.

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.

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. The recoverability of long-lived assets is assessed by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting the Company's average cost of capital.

Loan Costs

Direct costs and fees associated with the establishment of debt financing are capitalized and amortized on a straight-line basis over the term of the underlying debt.

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.

Shipping and Handling Fees and Costs

The Company reports shipping and handling fees charged to customers as part of net sales and the associated expense as part of cost of sales.

Operating Leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Rent payable under operating leases is recorded as an operating cost in the statement of operations on a straight-line basis over the lease terms.

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, use an expected dividend yield of zero.

Income Taxes

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

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

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

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

Asset Retirement Obligations

The Company accounts for its asset retirement obligations in accordance with applicable standards which requires that the discounted fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

All material environmental remediation liabilities for non-capital expenditures, which are probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required which affect the total cost.

Fair Value of Financial Instruments

In September 2006, the FASB issued regulations in order to establish a single definition of fair value and a framework for measuring fair value under generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements with expanded disclosures about fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The Company adopted these regulations pertaining to non-financial assets and non-financial liabilities at the beginning of its 2009 fiscal year. This initial adoption did not have an impact on the Company's financial statements or footnote disclosures.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. The Company did not have any items of comprehensive income (loss) for the years ended September 30, 2010, 2009 and 2008.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States 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 periods. Actual results could differ from those estimates.

Recent Accounting Pronouncements and Developments

In May 2008, the FASB issued FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. FASB Statement No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements

of nongovernmental entities that are presented in accordance with generally accepted accounting principles. FASB Statement No. 162 will be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 422, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. Any effect of applying the provisions of FASB Statement no. 162 will be reported as a change in accounting principle in accordance with FASB Statement No. 154, Accounting Changes and Error Corrections. The adoption did not have any impact on the Company's financial statement presentation or disclosures.

In 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. The FASB Accounting Standards Codification ("ASC"), also known collectively as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission.

Results of Operations for the Twelve Months Ending September 30, 2010, 2009 and 2008

	2010		2009		2008	
Net sales	$ 112,828,496	100%	$ 110,079,361	100%	$ 185,612,715	100%
Cost of sales	96,952,237	86%	97,601,925	89%	158,547,710	85%
Lower of cost or market adjustment	--	0%	--	0%	3,237,311	2%
Gross profit	15,876,259	14%	12,477,436	11%	23,827,694	13%
Selling expenses	1,695,618	1%	1,684,370	2%	1,787,400	1%
General and administrative expenses	5,653,532	5%	5,245,875	5%	7,833,119	4%
Total SG&A	7,349,150	6%	6,930,245	6%	9,620,519	5%
Income from Operations	8,527,109	8%	5,547,191	5%	14,207,175	7%
Interest income	14,201	0%	17,124	0%	27,656	0%
Interest expense	4,902,120	4%	5,443,927	5%	6,348,365	3%
Other income(expenses)	3,968,553	3%	350,429	0%	727,339	0%
Net income before taxes and minority interests	7,607,743	7%	470,817	0%	8,613,805	4%
Income taxes	(636,181)	0%	(351,783)	0%	(972,244)	0%
Net income before minority interests	6,971,562	6%	119,034	0%	7,641,561	4%
Minority interests	(1,283,162)	1%	(65,873)	0%	(1,309,763)	1%
Net income	$ 5,688,400	5%	$ 53,161	0%	$ 6,331,798	3%

Results of Operations for the Three Months Ending September 30, 2010 and 2009

	2010		2009	
Net sales	$ 32,374,532	100%	$ 24,300,739	100%
Cost of sales	28,884,960	89%	20,038,095	82%
Gross profit	3,489,572	11%	4,262,644	18%
Selling, general and administrative expenses	1,773,226	5%	1,799,768	8%
Income from Operations	1,716,346	6%	2,462,876	10%

For the twelve months ended September 30, 2010 and 2009

Net Sales

Net sales for the twelve months ending September 30, 2010 were $112.8 million, an increase of $2.7 million, or 2%, over net sales of $110.1 million for the twelve months ending September 30, 2009. The increase in net sales was primarily attributable to an increase in tons invoiced of 688 tons, or 0.5% and an increase in the average selling price of $17 per ton, or 2%.

Cost of Sales

Cost of Sales for the twelve months ending September 30, 2010 were $97.0 million, a decrease of $649,000, or 1%, over cost of sales of $97.6 million for the twelve months ending September 30, 2009. The decrease in cost of sales was primarily due to the cost savings related to the reduction of the Melt Shop operating rate which was initiated in November, 2009.

Gross Profit

Gross profit for the twelve months ending September 30, 2010 was $15.9 million, an increase of $3.4 million, or 27%, over gross profit of $12.5 million for the twelve months ending September 30, 2009. Gross margin increased for the twelve months ending September 30, 2010 to 14% as compared to the gross margin for the twelve months ending September 30, 2009 of 11%. The increase in gross profit and gross margin was primarily attributable to increased sales of a higher margin product mix.

Selling Expenses

Selling expenses for the twelve months ending September 30, 2010 were $1.7 million, which were consistent with selling expenses for the twelve months ending September 30, 2009 of $1.7 million.

General and Administrative Expenses

General and administrative expenses for the twelve months ending September 30, 2010 were $5.7 million, an increase of $407,000, or 8%, over general and administrative expenses of $5.2 million for the twelve months ending September 30, 2009. The increase in general and administrative expenses was primarily due to increases in management fees of $411,000 and other benefits of $125,000, partially offset by a reduction in legal fees of $285,000.

Interest Expense

Interest expense for the twelve months ending September 30, 2010 was $4.9 million, a decrease of $541,000, or 10%, over interest expense of $5.4 million for the twelve months ending September 30, 2009. The decrease in interest expense was primarily attributed to lower average debt balances carried by the Company and a reduction of the Company's overall principal balances on the Company's term notes due to payments of principal.

Other Income

Other income for the twelve months ending September 30, 2010 was $4.0 million, an increase of $3.6 million, over other income of $350,000 for the twelve months ending September 30, 2009. The increase in other income was primarily attributed to $3.7 million of forgiveness of debt related to the partial repurchase of the 13% Preferred Stock, and $226,000 of forgiveness of debt related to the partial repurchase of the 4% Restated Promissory Note.

Income Tax Expense

Income tax expense for the twelve months ending September 30, 2010 was $636,000, an increase of $285,000, or 81%, over income tax expense of $351,000 for the twelve months ending September 30, 2009. The increase was primarily attributable to higher taxable income in 2010.

Minority Interest

Minority interest for the twelve months ending September 30, 2010 was $1.3 million, an increase of $1.2 million, over minority interest of $66,000 for the twelve months ending September 30, 2009. The decrease was attributable to higher net income.

For the twelve months ended September 30, 2009 and 2008

Net Sales

Net sales for the twelve months ending September 30, 2009 were $110.1 million, a decrease of $75.5 million, or 41%, over net sales of $185.6 million for the twelve months ending September 30, 2008. The decrease in net sales was primarily attributable to a decrease in tons invoiced of 68,688 tons, or 35% and a decrease in the average selling price of $79 per ton, or 8%.

Cost of Sales

Cost of Sales for the twelve months ending September 30, 2009 were $97.6 million, a decrease of $64.2 million, or 40%, over cost of sales of $158.5 million for the twelve months ending September 30, 2008. The decrease in cost of sales was primarily due to a decrease of $49.1 million in materials, including scrap, alloys and billets and $5.1 million of freight, due to lower freight volume.

Lower of Cost or Market Adjustment

The Company was not required to make a lower of cost or market adjustment for the twelve months ending September 30, 2009; however for the twelve months ending September 30, 2008, the Company recognized a $3.2 million loss related to a lower of cost or market adjustment to billet and scrap metal inventories. The market value of billet and scrap metal inventories were determined using replacement costs. The Company is uncertain of whether additional adjustments will be required in future periods.

Gross Profit

Gross profit for the twelve months ending September 30, 2009 was $12.5 million, a decrease of $11.3 million, or 48%, over gross profit of $23.8 million for the twelve months ending September 30, 2008. The decrease in gross profit was primarily due to lower shipping volume. Gross margin decreased for the twelve months ending September 30, 2009 to 11% as compared to the gross margin for the twelve months ending September 30, 2008 of 13%. The decrease in gross margin was primarily attributable to the spreading of fixed costs over fewer shipped tons.

Selling Expenses

Selling expenses for the twelve months ending September 30, 2009 were $1.7 million, which were consistent with selling expenses for the twelve months ending September 30, 2008 of $1.8 million. The slight decrease was attributable to a reduction in commissions of approximately $87,000.

General and Administrative Expenses

General and administrative expenses for the twelve months ending September 30, 2009 were $5.2 million, a decrease of $2.6 million, or 33%, over general and administrative expenses of $7.8 million for the twelve months ending September 30, 2008. The decrease in general and administrative expenses was primarily due to decreases of $1.8 million related to management incentives, approximately $294,000 related to insurance expenses, and approximately $271,000 related to taxes.

Interest Expense

Interest expense for the twelve months ending September 30, 2009 was $5.4 million, a decrease of $900,000, or 14%, over interest expense of $6.3 million for the twelve months ending September 30, 2008. The decrease in interest expense was primarily attributed to lower average debt balances carried by the Company and a reduction of its overall principal balances on its term notes due to payments of principal.

Other Income

Other income for the twelve months ending September 30, 2009 was $350,000, a decrease of $377,000, or 52%, over other income of $727,000 for the twelve months ending September 30, 2008. The decrease in other income was primarily attributed to liabilities written down for the twelve months ending September 30, 2008, which write-downs were not repeated in the twelve months ended September 30, 2009.

Income Tax Expense

Income tax expense for the twelve months ending September 30, 2009 was $352,000, a decrease of $620,000, or 64%, over income tax expense of $972,000 for the twelve months ending September 30, 2008. The decrease was primarily attributable to lower taxable income in 2009.

Minority Interest

Minority interest for the twelve months ending September 30, 2009 was $66,000, a decrease of $1.2 million, over minority interest of $1.3 million for the twelve months ending September 30, 2008. The decrease was attributable to lower net income.

For the three months ended September 30, 2010 and 2009

For the three months ending September 30, 2010, net sales increased $8.1 million to $32.4 million, or 33%, as compared to the three months ending September 30, 2009, as a result of a 15% increase in the number of tons invoiced and a 16% increase in the price per ton. For the three months ending September 30, 2010, cost of sales increased $8.9 million to $28.9 million, or 44% as compared to the three months ending September 30, 2009, as a result of higher volumes and higher raw material costs. Gross profit decreased for the three months ending September 30, 2010 by $773,000 to $3.5 million, or 18%. For the three months ending September 30, 2010, selling, general and administrative expenses slightly decreased by $27,000 to $1.8 million, or 1%, as compared to the three months ended September 30, 2009.

Liquidity and Capital Resources – September 30, 2010

The Company recognized net income of $5.7 million for the year ending September 30, 2010 and generated a positive cash flow from financing activities of $3.0 million for the year ending September 30, 2010. The Company used $3.4 million in operating activities and $29,269 in investing activities and had an accumulated deficit of $326.1 million and a stockholders' deficiency of $41.7 million at September 30, 2010.

The Mill relies on cash flows from operations to support a Credit Facility to fund its operations.

On May 28, 2010, KES entered into the Revolving Credit, Term Loan and Security Agreement (the "Loan Agreement") by and among KES, the financial institutions from time to time a party thereto and PNC Bank, National Association ("PNC"), as a lender and as agent for the lenders. The Loan Agreement provides for an asset-based revolving credit line of $23 million (the "Revolver") and a term loan of $4 million (the "Term Loan", and together with the Revolver, the "Credit Facility"). The Credit Facility has a three year term. The Term loan amortizes at $500,000 per quarter over eight quarters. Both the Revolver and the Term Loan bear interest at variable rates based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. In addition, the Credit Facility contains customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios.

KES used the proceeds of the Credit Facility: (1) to repay all outstanding obligations under the 2007 Credit Facility with Ableco and PNC, (2) to pay certain fees and expenses related to the Credit Facility, and (3) to redeem shares of its 13% Series A Preferred Stock.

As of September 30, 2010, the balance outstanding on the Credit Facility was $16.7 million ($13.1 million under the Revolver and $3.5 million under the Term Loan).

At September 30, 2010, 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, 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 payments computed for ALJ for the year ending September 30, 2010 were $1.1 million. ALJ has approximately $271 million of federal net operating loss carryovers currently available to offset any federal income tax liability of KES in subsequent periods. ALJ expects that its federal net operating loss carryovers will be sufficient to absorb most of any future federal income tax liability of KES.

The long-term economic viability of the Mill and its ability to fund its operations and debt service requirements, including maintaining compliance with various debt covenants and servicing the interest and principal obligations under the Credit Facility and Subordinated Financing Agreement and the dividends and redemption features on the Series A Preferred Stock issued in connection with the acquisition of the Mill, is dependent on various internal and external factors, including the Mill's ability to operate on a sustained basis and at sufficient capacity. 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 year ending September 30, 2010, the Company used $3.4 million from operating activities, primarily attributable to increases in inventory of $3.5 million and accounts receivable of $1.5 million and decreases in accounts payable of $1.9 million, partially offset by net income of $5.7 million, reduced by the recognition of non-cash gains due to the early retirement of debt and preferred stock of $4.0 million.

Investing Activities

For the year ending September 30, 2010, the Company used $29,269 in investing activities related to an additional investment in Bellator Sports Worldwide, LLC, an early development stage company specialized in the promotion, marketing and development of mixed martial arts.

Financing Activities

For the year ending September 30, 2010, the Company generated cash of $3.0 million in financing activities primarily attributable to additional borrowings against the Credit Facility of $8.7 million and additional borrowings on the 8% note payable of $2.2 million and proceeds received from a new term loan of $4.0 million partially offset by the repurchase of 8% Series A Preferred Stock of $5.7 million and payments against term loans of $6.1 million.

Principal Commitments

At September 30, 2010, the Company's principal commitments consisted of the following obligations:

	Payments Due by 12 Month Periods Ending September 30, (in thousands)					
Contractual cash obligations	**Total**	**2011**	**2012**	**2013**	**2014**	**There-after**
4% notes payable	$ 2,147	$ ---	$ ---	$ ---	$ 2,147	$ ---
8% subordinated loans payable	32,172	---	---	---	---	32,172
Term Loan – B – PNC, Lake Forest	4,033	3,209	824	---	---	---
Revolver – PNC	13,181	---	13,181	---	---	---
Operating leases	2,670	724	724	724	498	---
Capital lease obligation	364	182	182	---	---	---
Management services agreement	2,858	700	700	700	700	58
4% Series A Preferred Stock subject to mandatory redemption	2,274	---	---	2,274	---	---
13% Series A Preferred Stock of subsidiary subject to mandatory redemption, including accrued dividends	10,258	---	---	---	---	10,258

Total contractual cash obligations	$ 69,957	$4,815	$15,611	$3,698	$ 3,345	$42,488

At September 30, 2010, the Company did not have any material commitments for capital expenditures.

At September 30, 2010, the Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $3,036,000.

Off-Balance Sheet Arrangements

The Company does not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at September 30, 2010.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John Scheel, certify that:

1. I have reviewed this annual report of ALJ Regional Holdings, Inc.;

2. Based on my knowledge, this annual report 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 annual report; and

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

Date: December 31, 2010

/s/ John Scheel
John Scheel, Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, T. Robert Christ, certify that:

1. I have reviewed this annual report of ALJ Regional Holdings, Inc.;

2. Based on my knowledge, this annual report 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 annual report; and

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

Date: December 31, 2010

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

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2010, 2009, and 2008

	2010	2009	2008
ASSETS			
Current assets:			
Cash and cash equivalents	$ 391,470	$ 779,841	$ 951,803
Accounts receivable, less allowance for doubtful accounts of $576,882, $663,021, and $747,050, respectively	11,030,780	9,435,003	18,326,250
Inventory	21,272,658	17,726,138	32,317,350
Prepaid expenses and other current assets	1,078,846	612,883	813,115
Other receivables	430,822		
Total current assets	$ 34,204,576	$ 28,553,865	$ 52,408,518
Property, plant and equipment	$ 5,107,203	$ 5,107,203	$ 6,630,011
Less accumulated depreciation and amortization	(2,200,111)	(1,799,589)	(3,220,238)
Property, plant and equipment, net	$ 2,907,092	$ 3,307,614	$ 3,409,773
Other assets:			
Deferred loan costs, net of amortization of $0	$ 176,712	$ 621,528	$ -
Deposits	924,460	906,435	906,435
Investment in Bellator	241,769	212,500	212,500
Total other assets	1,342,941	1,740,463	1,118,935
Total assets	$ 38,454,609	$ 33,601,942	$ 56,937,226

(continued)

See accompanying notes to consolidated financial statements.

	2010	2009	2008
LIABILITIES AND STOCKHOLDERS' DEFICIENCY			
Current liabilities:			
Accounts payable	$ 6,111,990	$ 7,981,779	$ 14,976,957
Accrued expenses	2,289,189	2,553,796	4,100,319
Accrued interest payable	2,290,349	2,154,788	2,136,561
Income taxes payable	328,073	189,140	528,494
Note – A – Ableco	-	-	1,043,412
Note – B – Ableco	-	2,188,736	4,500,000
Current portion of term notes	3,209,395		
Secured line of credit	13,181,106	4,524,332	18,205,749
Current portion of capital lease obligation	152,233	135,099	378,406
Liabilities related to discontinued operations	2,984,660	2,984,660	2,984,660
Total current liabilities	$ 30,546,995	$ 22,712,330	$ 48,854,558
Non-current liabilities:			
4% note payable, $1.3 million plus cumulative interest of $847,268 at September 30, 2010, $1.9 million plus cumulative interest of $915,183 at September 30, 2009, $2.4 million plus cumulative interest of $1,050,746 at September 30, 2008	2,147,268	2,815,183	3,450,746
8% subordinated secured loans	29,882,226	27,857,522	25,665,441
Note Payable – B – Ableco	-	3,403,275	5,000,000
Term notes payable, less current portion	823,880		
Capital lease obligation, less current portion	171,792	324,026	-
Deferred rent	-	-	-
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 September 30, 2010 plus cumulative dividends of $4,320,385, 12,500 shares issued and outstanding at September 30, 2009 plus cumulative dividends of $7,470,548, and 12,500 shares issued and outstanding at September 30, 2008 plus cumulative dividends of $5,845,548.	10,257,885	19,970,548	18,345,548
Series A Preferred stock subject to mandatory redemption; 4% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $4.00 per share; 374,556 shares issued and outstanding at September 30, 2010 plus cumulative dividends of $775,790, 374,556 shares issued and outstanding at September 30, 2009 plus cumulative dividends of $715,861, and 374,556 shares issued and outstanding at September 30, 2008 plus cumulative dividends of $655,932	2,274,014	2,214,085	2,154,156
Minority interest – related parties	4.064,492	2,781,329	2,715,456
Total liabilities	$ 80,168,552	$ 82,078,298	$ 106,185,905
Commitments and contingencies			
Stockholders' deficiency:			
Preferred stock, $0.01 par value; authorized - $5,000,000 shares; issued and outstanding at September 30, 2010 – 374,556 shares of Series A preferred stock, at September 30, 2010, 2009 and 2008 (classified in long-term liabilities as preferred stock subject to mandatory redemption)			
Common stock, $0.01 par value; authorized – 100,000,000 shares; 49,729,574, 48,665,104 and 47,133,061 issued and outstanding as of September 30, 2010, 2009 and 2008	$497,295	$486,651	$465,335
Additional paid in capital	$ 284,717,264	$ 283,653,895	$ 282,956,049
Accumulated deficit	$(326,098,926)	$(331,787,326)	$(331,840,487)
Treasury stock – 607,500 shares, at cost	(829,576)	(829,576)	(829,576)
Total stockholders' deficiency	$ (41,713,943)	$ (48,476,356)	$ (49,248,679)
Total liabilities and stockholders' deficiency	$ 38,454,609	$ 33,601,942	$ 56,937,226

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2010, 2009 and 2008

	2010	2009	2008
NET SALES	$ 112,828,496	$ 110,079,361	$ 185,612,715
COSTS AND EXPENSES			
Cost of sales	$ 96,952,237	$ 97,601,925	$ 158,547,710
Lower of Cost or Market	-	-	3,237,311
Selling	1,695,618	1,684,370	1,787,400
General and administrative	5,653,532	5,245,875	7,833,119
Total	$ 104,301,387	$ 104,532,170	$ 171,405,540
Income from operations	$ 8,527,109	$ 5,547,191	$ 14,207,175
OTHER INCOME (EXPENSE)			
Interest income	$ 14,201	$ 17,124	$ 27,656
Interest expense:			
13% Series A Preferred Stock	(1,332,834)	(1,625,000)	(1,629,452)
Notes payable to related parties	(2,390,578)	(2,158,273)	(2,139,082)
Other	(1,178,708)	(1,660,654)	(2,579,831)
Loss on investments	-	-	(75,000)
Gain on debt retirement	3,955,884	-	-
Other income (expense), net	12,669	350,429	802,339
Total Other income (expense), net	$ (919,366)	$ (5,076,374)	$ (5,593,370)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	$ 7,607,743	$ 470,817	$ 8,613,805
Income tax	(636,181)	(351,783)	(972,244)
INCOME (LOSS) BEFORE MINORITY INTEREST	$ 6,971,562	$ 119,034	$ 7,641,561
MINORITY INTEREST – related parties	1,283,162	65,873	1,309,763
INCOME (LOSS) FROM OPERATIONS	$ 5,688,400	$ 53,161	$ 6,331,798
NET INCOME PER COMMON SHARE -			
Basic	$0.12	$0.00	$0.13
Diluted	$0.11	$0.00	$0.13
NUMBER OF COMMON SHARES OUTSTANDING			
Basic	49,197,339	47,899,083	47,133,061
Diluted	49,722,339	49,285,194	49,605,283

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
YEARS ENDED SEPTEMBER 30, 2010, 2009 and 2008

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balances at September 30, 2008	47,133,061	$ 465,335	$ 282,956,049	$ (331,840,487)	$ (829,576)	$ (49,248,679)
Exercise of Stock Options	663,637	12,632	1,161			13,793
Restructuring November 10, 2008	500,000	5,000	458,810			463,810
Share based compensation						
Restricted Stock	368,406	3,684	53,048			56,732
Stock Options			184,827			184,827
Net Income				53,161		53,161
Balances at September 30, 2009	48,665,104	$ 486,651	$ 283,653,895	$ (331,787,326)	$ (829,576)	$ (48,476,356)
Exercise of Stock Options	300,000	3,000	9,000			12,000
Restructuring 4% ALJ Note	600,000	6,000	186,000			192,000
Restructuring of 13% Preferred Stock			656,249			656,249
Share based compensation						
Restricted Stock	164,470	1,644	31,250			32,894
Stock Options			180,870			180,870
Net Loss				5,688,400		5,688,400
Balances at September 30, 2010	49,729,574	497,295	284,717,264	(326,098,926)	(829,576)	(41,713,943)

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2010, 2009 and 2008

		2010		2009		2008
CASH FLOWS FROM OPERATING ACTIVITIES						
Net Income	$	5,688,400	$	53,161	$	6,331,798
Adjustments to reconcile net loss to net cash used in operating activities:						
Share based compensation		212,120		239,036		148,760
Depreciation and amortization		400,522		768,823		705,408
Provision for bad debts		(86,139)		(84,029)		(114,276)
Gain on early extinguishment of 13% Preferred Stock		(3,729,995)		-		-
Gain on early extinguishment of 4% Notes Payable		(225,887)		-		-
Amortization of loan costs		444,816		-		-
Loss on investment – Planet Hollywood		-		--		75,000
Minority interest - related parties		1,283,163		65,873		1,309,763
Changes in operating assets and liabilities:						
(Increase) decrease in -						
Accounts receivable, net		(1,509,638)		8,975,276		(4,230,992)
Inventories		(3,546,520)		14,591,212		(8,827,582)
Other assets		(158,824)		-		206,513
Prepaid expenses		(755,986)		200,232		525,545
Increase (decrease) in -						
Accounts payable		(1,869,789)		(6,995,178)		4,911,804
Income taxes payable		138,933		(339,354)		528,494
Accrued expenses (including unpaid cumulative dividends on preferred stock and interest payable		315,227		(2,228,870)		1,601,641
Deferred rent		-		-		(72,180)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	(3,399,597)	$	15,246,182	$	3,099,696
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment in Bellator	$	(29,269)	$	-	$	(212,500)
Investment in Planet Hollywood		-		-		-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$	(29,269)	$	-	$	(212,500)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from line of credit, net	$	8,656,774	$	(13,681,417)	$	4,723,691
Payments on capital lease obligations and contract payables		(135,100)		80,719		(501,559)
Net payments from notes payable		-		-		(6,456,588)
Net borrowings related to 8% Subordinated note		2,160,265		2,210,308		
Net proceeds from stock and options		12,000		32,000		-
Loan costs associated with refinancing		-		(621,528)		
Additional borrowings (payments) from 4% Preferred Stock		59,929		78,246		
Additional borrowings (payments) from 13% Preferred Stock		(5,712,609)		1,684,929		
Partial Repurchase of 4% notes payable – related party		(442,028)		(250,000)		(300,000)
Repayments on Abelco term loans		(5,592,011)		(4,951,401)		
Repayments on PNC term loan		(500,000)				
Proceeds from issuance of PNC Term Loan		4,000,000				
Proceeds from issuance of Lake Forest Term Loan		533,275				
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$	(3,040,495)	$	(15,418,144)	$	(2,534,456)
NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITES	$	(388,371)	$	(171,962)	$	352,740
CASH AND CASH EQUIVALENTS						
Net increase (decrease)	$	(388,371)	$	(171,962)	$	352,740
Balance at beginning of period		779,841		951,803		599,063
Balance at end of period	$	391,470	$	779,841	$	951,803
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:						
Interest paid	$	4,656,657	$	5,287,526	$	5,224,079
Income taxes paid	$	1,593,869	$	859,213	$	3,620,712

Noncash investing and financing transactions:

As part of the Company's debt restructuring, a net figure of $3,729,995 of accrued dividends on its 13% Preferred Stock and $656,250 of principal on its 13% Preferred Stock from related parties were forgiven during 2010 and the Company realized a corresponding gain.

As part of the Company's debt restructuring for the year ending September 30, 2008, $2,952,686 of accrued interest on subordinated notes payable and $3,227,729 of accrued dividends on its 13% Preferred Stock from related parties were forgiven during 2008 and the Company realized a corresponding gain. Additionally, during the year ending September 30, 2008, the Company repurchased $600,000 of its 4% note payable, plus $242,565 of accrued interest in exchange for $300,000 in cash and 600,000 shares of ALJ's common stock. During the year ending September 30, 2010, the Company repurchased $500,000 of its 4% note payable, plus $213,810 of accrued interest in exchange for $300,000 of cash and 600,000 shares of ALJ's common stock.

The Company renewed its capital lease agreement during 2010 in the amount of $578,918.

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2010, 2009 and 2008

1. Organization and Basis of Presentation

The Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, entitled The FASB Accounting Standards Codification of the Hierarchy of Generally Accepted Accounting Principles ("GAAP"). In substance, SFAS No. 168 makes the FAS Accounting Standards Codification ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC now is considered to be non-authoritative. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Company adopted the ASC upon issuance, with no material impact to the financial statements.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of ALJ Regional Holdings, Inc. (fka YouthStream Media Networks, Inc., "ALJ"), and its majority-owned subsidiary KES Acquisition Company ("KES") (see Note 3)(collectively, the "Company").

Commencing March 1, 2005, the Company has included the operations of a steel mini-mill located in Ashland, Kentucky, which represents the only business segment in which the Company currently operates, in its consolidated financial statements (see Note 3). All inter-company items and transactions have been eliminated in consolidation.

Going Concern

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the secured line of credit will be adequate to fund its operations for the next twelve months. 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 consider a formal or informal restructuring or reorganization, including a sale or other disposition of its assets.

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 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 Kentucky Acquisition Company ("KES"), a steel mini-mill that manufactures and sells steel bar flats.

Cash and Cash Equivalents

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

Accounts Receivable

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

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

after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory

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

Property, Plant and Equipment

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

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

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. The recoverability of long-lived assets is assessed by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting the Company's average cost of capital.

Loan Costs

The Company is amortizing loan costs from 2009 through the loan maturity date. The loan cost amortization expense was $444,816 and $87,744 for the year ending September 30, 2010 and 2009, respectively. There were no loan costs amortized for the year ending September 30, 2008.

Income Taxes

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

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

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

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

Deferred Acquisition Costs

Deferred acquisition costs related to pending transactions are accounted for as part of the purchase consideration if and when the transaction is completed. If the Company does not complete the transaction, those costs are charged to operations in the period that the Company's efforts to complete the transaction are terminated.

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.

Shipping and Handling Fees and Costs

The Company reports shipping and handling fees charged to customers as part of net sales and the associated expense as part of cost of sales.

Operating Leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Rent payable under operating leases is recorded as an operating cost in the statement of operations on a straight-line basis over the lease terms.

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. Estimated forfeiture rates are applied 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, use an expected dividend yield of zero.

Asset Retirement Obligations

The Company accounts for its asset retirement obligations in accordance with applicable standards which requires that the discounted fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

All material environmental remediation liabilities for non-capital expenditures, which are probable and estimatiable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required which affect the total cost.

Self-Insurance

The Company is self-insured for health care costs up to $45,000 per subscriber annually. Insurance coverage is carried for risks in excess of this amount. The Company recognized self-insured health care expense for the fiscal year ending September 30, 2010, 2009 and 2008 of approximately $3,123,000, $2,607,000, and $3,448,000, respectively. As of September 30, 2010, 2009 and 2008, estimated claims incurred but not reported were approximately $445,600, $414,400, and $475,900, respectively.

Fair Value of Financial Instruments

In September 2006, the FASB issued regulations in order to establish a single definition of fair value and a framework for measuring fair value under generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements with expanded disclosures about fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The Company adopted

these regulations pertaining to non-financial assets and non-financial liabilities at the beginning of its 2009 fiscal year. This initial adoption did not have an impact on the Company's financial statements or footnote disclosures.

Concentrations

The Company maintains its cash balances with a number of financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). Before October 3, 2009, the FDIC insured cash balances up to a limit of $100,000. On October 3, 2009, the FDIC increased the insurance levels to $250,000. As of September 30, 2010, 2009, and 2008, the Company had uninsured cash balances of approximately $141,000, $303,000 and $745,000, respectively.

For the fiscal year ending September 30, 2010, the Company had three suppliers that accounted for approximately 65% of raw materials purchases, of which approximately $1,451,000 was included in accounts payable at September 30, 2010. For the fiscal year ending September 30, 2009, the Company had three suppliers that accounted for approximately 42% of raw materials purchases, of which approximately $2,026,000 was included in accounts payable at September 30, 2009. For the fiscal year ending September 30, 2008, the Company had three suppliers that accounted for approximately 53% of raw materials purchases, of which approximately $4.3 million was included in accounts payable at September 30, 2008.

For the fiscal year ending September 30, 2010, the Company had four customers that accounted for approximately 23% of net sales, of which approximately $3,538,000 was included in accounts receivable at September 30, 2010. For the fiscal year ending September 30, 2009, the Company had four customers that accounted for approximately 24% of net sales, of which approximately $3,775,000 was included in accounts receivable at September 30, 2009. For the fiscal year ending September 30, 2008, the Company had four customers that accounted for approximately 20% of net sales, of which approximately $5,042,000 was included in accounts receivable at September 30, 2008.

Earnings Per Share

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

The following table summarizes the basic and dilutive weighted average shares at September 30, 2010, 2009 and 2008:

	2010	2009	2008
Weighted average shares outstanding, basic	49,197,339	47,899,083	47,133,061
Dilutive effect of:			
Options to purchase common stock	525,000	1,136,111	1,972,222
Warrants to purchase common stock	0	250,000	500,000
Weighted average shares outstanding, diluted	49,722,339	49,285,194	49,605,283

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. The Company did not have any items of comprehensive income (loss) for the years ended September 30, 2010, 2009 and 2008.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States 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 periods. Actual results could differ from those estimates.

3. Acquisition of Steel Mini-Mill

In September 2003, ALJ invested $125,000 to acquire a 1.00% membership interest in KES Holdings, LLC, a Delaware limited liability company ("KES Holdings"), which was formed to acquire certain assets of Kentucky Electric Steel, Inc., a Delaware corporation, consisting of

the Mill pursuant to Section 363 of the United States Bankruptcy Code through its subsidiary, KES Acquisition Company, LLC, a Delaware limited liability company ("KES Acquisition"). The Mill had ceased production on or about December 16, 2002 and its prior owner had filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on February 5, 2003. The Mill had been in operation for approximately forty years and was refurbished by KES Acquisition subsequent to its acquisition. The refurbished Mill has been generating revenues since late January 2004. ALJ completed its acquisition of the Mill in March 2005.

4. Discontinued Operations

As of September 30, 2010, 2009 and 2008, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of $2,984,660, $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.

5. Accounts Receivable

The Company's accounts receivable are summarized as follows at September 30, 2010, 2009, and 2008:

	2010	2009	2008
Accounts receivable	$ 11,607,662	$ 10,098,024	$ 19,073,300
Less: Allowance for doubtful accounts	(576,882)	(663,021)	(747,050)
Accounts receivable, net	$ 11,030,780	$ 9,435,003	$ 18,326,250

6. Inventories

Inventories are comprised of the following at September 30, 2010, 2009 and 2008:

	2010	2009	2008
Raw materials and scrap	$ 2,264,749	$ 4,104,768	$ 4,006,399
Semi-finished goods	10,682,554	8,967,882	12,039,393
Finished goods	8,325,355	4,653,488	16,271,558
Total	$ 21,272,658	$ 17,726,138	$ 32,317,350

7. Property, Plant and Equipment

Property, plant and equipment consisted of the following at September 30, 2010, 2009, and 2008:

	2010	2009	2008
Land	$ 142,498	$ 142,498	$ 142,498
Buildings and improvements	572,497	572,497	672,529
Machinery and equipment	4,392,208	4,392,208	5,814,984
Office equipment	---	---	---
Total	5,107,203	5,107,203	6,630,011
Less: Accumulated depreciation and amortization	(2,200,111)	(1,799,589)	(3,220,238)
Property, plant and equipment, net	$ 2,907,092	$ 3,307,614	$ 3,409,773

Depreciation and amortization expense for the years ended September 30, 2010, 2009 and 2008 was $400,522, $681,079, and $705,408, respectively.

8. Investments

In September 2009, the Company invested $212,500 in Bellator Sport Worldwide, LLC, ("Bellator") an early development stage company specialized in the promotion, marketing, and development of mixed martial arts. During the year ending September 30, 2010 the Company invested $29,269 in Bellator.

9. Capital Lease Obligations

As of September 30, 2010, the Company leases various equipment under a capital lease arrangement requiring monthly payments of $15,244 per month for a term of 4 years commencing June 1, 2008, reflecting a total obligation of $578,918. The Company determined the fair market value of this asset at the date of acquisition was $578,918. At September 30, 2010, future minimum annual lease payments under this capital lease arrangement are summarized as follows:

Years ending September 30,		
2011		182,924
2012		182,924
		365,848
Less amounts representing interest		(41,823)
Present value of minimum lease payments	$	324,025
Current maturities	$	152,233
Non-current maturities		171,792
	$	324,025

Assets recorded under capitalized lease arrangements as of September 30, 2010, 2009 and 2008 that are included above in Note 7 Property, Plant and Equipment consist of the following:

		2010		2009		2008
Machinery and equipment	$	578,918	$	578,918	$	2,101,730
Less: Accumulated depreciation and amortization		(231,568)		(115,784)		(1,821,497)
Property, plant and equipment, net	$	347,350	$	463,134	$	280,233

Depreciation expense for assets recorded under capital leases for the years ended September 30, 2010, 2009, and 2008 was $115,784, $115,784, and 420,346, respectively.

10. Notes Payable and Long-Term Debt

Restructure Debt Obligations:

On July 20, 2009, KES entered into the Subordinated Financing Agreement by and among KES, the lenders a party thereto and Ableco, LLC as collateral and administrative agent (the "Subordinated Financing Agreement"). Pursuant to the Subordinated Financing Agreement KES refinanced certain subordinated promissory notes that were originally issued in March of 2005 in connection with ALJ's acquisition of KES (the "Sub Notes"). Specifically, the Sub Notes were exchanged for term loans in the same amounts (including interest paid-in-kind) issued pursuant to the Subordinated Financing Agreement (the "Subordinated Loans"). The Subordinated Financing Agreement did not impact the amount of KES' indebtedness with respect to the subordinated debt, but provides for certain rights and remedies in favor of the subordinated lenders, subject to the rights of the senior lenders, including a second priority security interest in substantially all of KES' assets. By comparison, the terms of the Sub Notes and related loan agreement, provided for covenants and a security interest only once the senior debt was paid in full. The subordinated lenders included Ableco, ALJ and Jess Ravich, Hal Byer and Scott Fritz, all of whom serve on the Board. Ableco, LLC required that the Sub Notes be exchanged as a condition to the modifications to the Financing Agreement, dated as of February 23, 2007 with Ableco Finance LLC and PNC Bank, National Association (the "2007 Credit Facility") requested by KES.

Secured Line of Credit

Effective May 28, 2010, KES entered into the Revolving Credit, Term Loan and Security Agreement (the "Loan Agreement") by and among KES, the financial institutions from time to time a party thereto (the "Senior Lenders") and PNC Bank, National Association ("PNC"), as a lender and as agent for the lenders. Under the terms of the Loan Agreement, the Company has the ability to borrow up to $23,000,000, subject to limitations under the lender's borrowing base formula, compliance with a minimum fixed charge coverage ratio and leverage ratios. The lender's borrowing base formula is based on a percentage of the KES' cash, accounts receivable, inventory and certain reserves. Interest is payable monthly in arrears on the outstanding principal balance at variable rates based on LIBOR rate or a "Reference Rate."

At September 30, 2010, there was a balance of $13,181,106 outstanding on the line of credit bearing interest at 6.00%. At September 30, 2009, there was a balance of $2,524,332 outstanding on the line of credit bearing interest at 10.25% and $2,000,000 bearing interest at 8.25%. At September 30, 2008, $18,205,749 of the amount outstanding under the line of credit bore interest at 9.25%. The line of credit is secured by all the assets of KES. The loan agreement contains various restrictive covenants and financial covenants. As of September 30, 2010, KES was in compliance with all specified covenants. In the event that KES is not in compliance with the financial covenants in any future period, 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 line of credit at that time. The Revolver matures on May 28, 2013, and is secured by all of the assets of KES and has been presented as a non-current liability in the balance sheet. Additionally, the line is guaranteed by related parties pursuant to a Limited Guaranty agreement dated May 28, 2010.

Notes Payable –Term

The Company's financing with PNC provides for a Term Loan in the amount of $4 million. The Term Loan matures on May 28, 2012 and amortizes at $500,000 per quarter over the next 7 quarters. In addition, the Term Loan is subject to an annual "excess cash flow" payment which can expedite the amortization of the loan. As of September 30, 2010, the balance on the Term Loan was $3,500,000. The Term Loan has a variable interest rate based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time.

In the prior year, KES had entered into the Financing Agreement with Ableco providing for two term loans. The term loans total $19,000,000 and have an amended maturity date of February 23, 2011. The notes bore interest at variable rates based on the LIBOR rate or "Reference Rate." The note was paid in full as of September 30, 2010. As of September 30, 2009 the balance outstanding on the notes was $5,592,011 with an interest rate of 10.25%. As of September 30, 2008 the balance outstanding on the notes was $10,543,412 with an interest rate of 7.00%. The notes were secured by all the assets of KES. The notes are guaranteed by related parties pursuant to a Limited Guaranty agreement dated February 23, 2007.

The Company also has a one year note payable with Lake Forest Bank and Trust Company. The note is due in three equal payments of $180,982. The payments are due every three months beginning on December 8, 2010. The interest rate on the note is 3.95%.

Future scheduled principal payments on the notes are summarized as follows:

Years Ending September 30	Principal Payments
2010	$ 3,209,395
2011	823,880
Total	4,033,275

8% Subordinated Loans

Subordinated loans consist of a series of loans under 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 the ALJ's acquisition of KES. The loans are subject to the provisions of a subordination agreement dated May 28, 2010 with PNC, it its capacity as senior collateral agent with respect to the Credit Facility and Ableco, as the junior collateral agent with respect to the Subordinated Financing Agreement. The loans bear interest of 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 loan principal. Principal is due and payable upon the earlier to occur of (i) an

event of default under the Credit Facility or (ii) February 22, 2017. At September 30, 2010, 2009 and 2008, the balance outstanding on the Subordinated Loans was $29,882,226, $27,857,522, and $25,665,441, respectively. At September 30, 2010, 2009 and 2008, the portion of the notes payable to related parties was $15,364,715, $15,661,660, and $14,419,167, respectively. The Subordinated Loans under the Subordinated Financing Agreement are secured by a second priority security interest in all of KES' assets. Interest capitalized on Subordinated Loans for the years ending September 30, 2010, 2009 and 2008 was $2,024,704, $2,192,081 and $0, respectively.

The subordinated lenders include Ableco, ALJ and directors, whom serve on ALJ's board.

4% Subordinated Promissory Notes

The 4% Subordinated Note was originally issued on January 24, 2003 and bears interest at a rate of 4% per annum, which is payable annually, provided that the Company obtains certain thresholds. All outstanding principal and interest was originally due in 2011. During the year ending September 30, 2008, the Company repurchased $600,000 of aggregate principal and all related accrued interest on the note in exchange for $300,000 in cash and 600,000 shares of ALJ common stock. During the year ending September 30, 2009, the Company repurchased $500,000 of the aggregate principal and related accrued interest on the note in exchange for $250,000 of cash and 500,000 shares of common stock. During the year ending September 30, 2010, the Company repurchased $600,000 of aggregate principal plus $304,945 of accrued interest for consideration of $492,000. The purchase price was $300,000 in cash and 600,000 shares of ALJ's common stock, valued at $192,000 or $0.32 per share. The Note was also extended to June 30, 2014. The Note Repurchase effected May, 28 2010 was treated as an early retirement of debt, as a result the carrying value of the note was reduced to $2.1 million and no additional interest will be accrued on the note. The principal note balances as of September 30, 2010, 2009 and 2008 were $1.3 million, $1.9 million, and $2.4 million, respectively. Interest accrued on these notes as of September 30, 2010, 2009 and 2008 were $847,268, $915,183, and $1,050,746, respectively.

11. Redeemable Preferred Stock

4% Series A Preferred Stock

In January 2003 pursuant to the Company's amended articles of incorporation, authorizing the issuance of up to 5,000,000 shares of preferred stock, the Company issued 1,000,000 shares of 4% Series A Preferred Stock with the following characteristics:

a. Dividend Rights. The holders of the shares of 4% Series A Preferred Stock are entitled to receive cumulative preferential dividends in cash at the rate of 4% per year on the face amount of $4 per share payable quarterly. The dividends are payable, when and as declared by the Company's board of directors, out of funds legally available for that purpose, upon a liquidation event or upon redemption of the 4% Series A Preferred Stock.

b. Redemption. The Company shall redeem all of the outstanding shares of 4% Series A Preferred Stock as of December 31, 2010 at $4.00 per share, plus all accrued and unpaid dividends thereon. As of September 30, 2010, 2009 and 2008, the redemption value of the issued and outstanding shares of 4% Series A Preferred Stock recorded on the Company's consolidated balance sheet was $2,274,014, $2,214,085 and $2,154,156, respectively.

c. Convertibility and Voting Rights. The 4% 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.

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

Pursuant to SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," because the 4% Series A Preferred Stock provides for mandatory redemption in cash, it is classified as a long-term liability at the future redemption value of $2,214,085, including cumulative dividends of $715,861, with no future accretion adjustments to the balance to be taken against stockholders' equity (deficit) in subsequent periods.

13% Series A Preferred Stock

In connection with the acquisition of the steel mini-mill (see Note 3), and pursuant to its articles of incorporation, authorizing the issuance of up to 50,000 shares of preferred stock, KES, a subsidiary of the Company, issued 25,000 shares of its 13% Series A Preferred Stock with the following characteristics:

a. Dividend Rights. The holders of the shares of 13% Series A Preferred Stock are entitled to receive cumulative preferential 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 the 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 September 30, 2010, the balance outstanding on the 13% Series A Preferred Stock was $5,937,500, related accrued dividends payable were $4,320,385 and $1,900,000 of the preferred stock was held by related parties. As of September 30, 2009, the balance outstanding on the 13% Series A Preferred Stock was $12,500,000, related accrued dividends payable were $7,470,548 and $6,500,000 of the preferred stock was held by related parties. As of September 30, 2008, the balance outstanding on the 13% Series A Preferred Stock was $12,500,000, related accrued dividends payable were $5,845,548 and $6,500,000 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.

On May 28, 2010, KES repurchased 6,564 shares of its 13% Series A Preferred Stock plus accrued dividends thereon for aggregate consideration of $5.9 million. The Company has recorded $656,250 as a credit to additional paid-in capital and recognized a gain of approximately $4.5 million related to accrued dividends forgiven. The gain was netted with a face value of $750,000 in loan and legal fees related to the debt restructure. The Repurchased Stock had a face value of approximately $6.6 million plus accrued dividends of approximately $4.5 million. The Stock Repurchase was effected pursuant to stock repurchase agreements between KES and the holders of the Repurchased Stock dated May 28, 2010

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 September 30, 2010 of $ 10,257,885 including cumulative dividends of $4,320,385.

12. Income Taxes

For the twelve months ending September 30, 2010, 2009 and 2008, the Company had income tax expense due to taxable income from operations. The provision for income taxes related to continuing operations for the twelve months ending September 30, 2010, 2009, and 2008, consisted of the following:

	2010	2009	2008
Income tax expense – current			
Federal	$ 171,540	$ 153,548	$2,358,227
State	485,219	37,319	1,125,097
	$ 656,759	$ 190,867	3,483,324
Income tax benefit – deferred			
Federal	$ 1,839,961	$ 76,864	$(2,091,871)
State	(15,710)	84,052	(419,209)
Change in valuation allowance	(1,844,829)	-	-
	(20,578)	160,916	(2,511,080)
	$ 636,181	$ 351,783	$ 972,244

Significant components of the Company's deferred tax liabilities and assets as of September 30, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Net deferred tax assets:			
Net operating loss carryforwards	$270,613,109	$276,070,259	$ 286,047,672
Accrued interest/dividends	532,954	512,578	726,431
Lower cost or market adjustment	-	-	744,581
Management incentive	182,945	96,880	497,773
Accrued health care cost	102,485	95,312	109,455

Accrued remediation cost	13,075	11,620	10,372
Allowance for doubtful accounts	132,683	152,494	171,821
Accrued vacation	10,651	7,722	
Share-based compensation	-	49,416	50,579
Other			
Net deferred tax asset	$ 271,587,902	$ 276,996,281	$ 288,358,684
Net deferred tax liabilities			
Tax depreciation in excess of book	$ (440,855)	$ (422,073)	$ (300,167)
Asset retirement obligation	30,418	29,226	28,083
Net deferred tax liabilities	$ (410,437)	$ (392,847)	$ (272,084)
Total net deferred tax assets	$ 271,177,465	$ 276,603,434	$ 288,086,600
Less Valuation Allowance	$(271,177,465)	$(276,603,434)	$(288,086,600)
	$ -	$ -	$ -

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.

For the twelve months ending September 30, 2010, the net deferred tax assets and valuation allowance decreased by $5,425,969. This decrease was primarily the result of taxable income during the current twelve months.

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

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carryforward and with the uncertainty of current economic and market conditions, Management has decided to establish a valuation allowance for the full amount of the net deferred tax assets as of September 30, 2010.

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.

The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ending September 30, 2010, 2009 or 2008, respectively.

At September 30, 2010, the Company had a net operating loss carryforward for federal income tax purposes of approximately $271,000,000 that expires from 2012 through 2028. The use of approximately $36,000,000 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.

13. Share-based Compensation and Stock Options

The Company determined the fair value of all stock-based compensation, including stock options and warrants issued during the twelve months ending September 30, 2010, 2009 and 2008, by using the Black-Scholes option-pricing model. Included in the selling, general and administrative expenses for the twelve month periods ending September 30, 2010, 2009 and 2008, the Company recognized share-based share

compensation expense of $212,120, $214,848 and $148,759, respectively, including $31,250, $30,021 and $89,130, respectively, related to the issuance of restricted stock and $180,870, $184,827 and $59,629, respectively, related to the issuance of stock options.

The Company issued options to purchase 2,200,000 shares of its common stock during the twelve months ending September 30, 2008 at an average weighted average share price of $0.42 per share. These options carry a 10 year term and vest ratably over a three year period; however, vesting is accelerated by a change of control. For the twelve months ending September 30, 2008, the Company issued 710,802 shares of restricted stock to the Board of Directors at an average weighted average share price of $0.44 per share, of which 562,500 vested upon issuance for prior service and 148,302 were issued for the current year's service and vest ratably over a one year period. All of these restricted shares were fully vested as of September 30, 2010.

During the twelve months ending September 30, 2009, the Company issued 347,220 restricted shares to the board of directors as part of their compensation. These restricted shares will vest ratably over a one year period. The restricted shares were issued at an average weighted average share price of $0.18 per share. All of these restricted shares were fully vested as of September 30, 2010.

During the twelve months ending September 30, 2010, the Company issued 164,470 restricted shares to the board of directors as part of their compensation. These restricted shares will vest ratably over a one year period. The restricted shares were issued at an average weighted average share price of $0.38 per share. As of September 30, 2010 there were 41,118 shares subject to grants of restricted shares that have vested.

FASB Statement No. 123(R) requires all share-based payments to employees be recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Company determines fair value of such awards using the Black-Scholes option-pricing model. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. For restricted stock grants and stock options issued during the twelve months ending September 30, 2008, the Company computed volatility of 94% and a risk-free interest rate of 3.08%. For restricted stock grants issued during the twelve months ending September 30, 2009, the Company computed volatility of 129% and a risk-free interest rate of 0.47%. For restricted stock grants issued during the twelve months ending 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. The risk-free interest rate used was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options or restricted stock. The Company has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly, uses an expected dividend yield of zero.

The Company did not grant any stock options during the twelve months ending September 30, 2010 or 2009. As of September 30, 2008, the following table summarizes the outstanding and exercisable stock options for the twelve month period.

Shares granted during twelve month period ending	Weighted-Average Exercise Price	Number Outstanding	Weighted Remaining Contractual Life	Exercise Price for Outstanding Options	Number Exercisable	Exercise Price for Exercisable Options
September 30, 2008	$0.42	2,200,000	10 Years	$0.40 - $0.59	1,705,556	$0.40 - $0.59

14. Common Stock Warrants

The following table summarizes common stock warrant activity for the years ended September 30, 2010, 2009, and 2008:

	Number of Shares	Weighted-Average Exercise Price
Warrants outstanding at September 30, 2008	500,000	$ 0.12
Warrants granted	---	---
Warrants canceled	500,000	---
Warrants exercised	---	0.12
Warrants outstanding at September 30, 2009	---	$ 0.12
Warrants canceled	---	0.12
Warrants exercised	---	---
Warrants outstanding at September 30, 2010	---	$ ---

15. Commitments and Contingencies

Operating Leases

The Company leases equipment, rail tracks and certain land. The lease term shall continue in effect until terminated by the Company or the lessor. Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows at September 30, 2010:

Years Ending September 30,	
2011	723,908
2012	723,908
2013	723,908
2014	497,725
Total	$ 2,669,449

Rent expense was approximately $723,908, $450,439 and $550,129 for the years ended September 30, 2010, 2009, and 2008, respectively.

Operating Commitments

The Mill has been operating under a Management Agreement with a management company effective through May 28, 2014 pursuant to which the management company 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, the management company 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. Total management fee expense was $1,498,061, $1,083,582 and $2,864,417 for the twelve months ending September 30, 2010, 2009 and 2008. As of September 30, 2010, 2009 and 2008, the balance of accrued management fee was $795,413, $421,216 and $2,164,232, 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 $3,036,000, $4,065,360 and $1,974,590 at September 30, 2010, 2009 and 2008, respectively.

As part of the restructuring, the Company entered into a Fee and Reimbursement Agreement dated May 28, 2010 with related parties "Guarantors". Pursuant to the agreement, the Company has agreed to pay the Guarantors a fee in exchange for the Guarantors guaranteeing certain obligations of the Company under the Credit Facility. The fee is equal to $100,000 due at the time of closing and $50,000 on the first year anniversary of closing. As of September 30, 2010, 2009 and 2008, the Company had accrued balances of $16,667, $250,000 and $250,000, respectively, related to the fee and reimbursement agreement which is included in accrued expenses in the balance sheet.

Uncertainties and Contingencies

Historically, the Company has been subject to various lawsuits, claims and other legal actions arising in the ordinary course of business. As of December 14, 2010, management was not aware of any legal contingencies involving the Company. In the opinion of management, any potential matters involve such amounts that unfavorable disposition would not have a material adverse effect on the financial position or results of operations of the Company.

16. Subsequent Events

None.

PART E

EXHIBITS

Exhibit No.	Description
1*	First Amendment to Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 1, 2010.
2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2009 available at www.pinksheets.com.).
3	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006. (incorporated by reference to Exhibit 2 to the Company's Annual Report available at www.pinksheets.com posted on January 15, 2007)
4	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com.)
5	YouthStream Media Networks, Inc. 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.28 to YouthStream's Form 10-KSB filed with the SEC for the fiscal year ended June 30, 1999).
6**	First Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated February 23, 2007.
7	Amended and Restated Management Services Agreement, February 28, 2005, by and between KES Acquisition Company, LLC and Pinnacle Steel, LLC (incorporated by reference to Exhibit 10.83 to YouthStream's Form 8-K, filed with the SEC on March 14, 2005).
8**	Amended and Restated Tax Sharing Agreement by and between the ALJ Regional Holdings, Inc. and KES Acquisition Company.
9	Rights Agreement dated May 13, 2009 by and between ALJ Regional Holdings, Inc. and American Stock Transfer and Trust Company, LLC (incorporated by reference to Annex B to ALJ Regional Holdings proxy statement dated May 15, 2009 available at www.pinksheets.com).
10*	Revolving Credit, Term Loan and Security Agreement, dated as of May 28, 2010, by and among KES, the financial institutions from time to time a party thereto and PNC as a lender and agent for the lenders.
11*	Second Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated May 28, 2010.

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*	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.