ALJ REGIONAL HOLDINGS, INC.

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Annual Report for the
Fiscal Year Ended
September 30, 2012

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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, 2012 (the "Report") regarding future financial performance and results and other statements that are not historical facts, including, among others, the statements regarding the proposed sale of the Company's (defined below) majority owned subsidiary, KES Acquisition Company ("KES"), to Optima Specialty Steel, Inc. ("Optima"), the impact that of such transaction, (as defined below, the "Merger") may have on deferred tax assets, the proposed Tender Offer (defined below), the Company's plans to make additional acquisitions following the closing of the Merger, 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, (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, (xx) any difficulties of integrating any acquisition the Company may contemplate, (xxi) the failure to satisfy any of the conditions to complete the Merger, including Optima's failure to secure sufficient financing to complete the Merger, and the timing of the satisfaction of any such conditions, (xxii) the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement (defined below) or failure of the Merger, including due to Optima's failure to secure financing to complete the Merger, (xxiii) the failure to satisfy any of the conditions to complete the Tender Offer, including consummation of the Merger, (xxiv) the outcome of any legal proceedings instituted against us and others in connection with the proposed Merger or the Tender Offer, (xxv) uncertainties as to the amount, if any, of our cash that our stockholders may receive in the future through the Tender Offer or otherwise, (xxvi) the effect of the announcement of the Tender Offer and the Merger on our business relationships, operating results and business generally, (xxvii) the risk that estimated or anticipated costs, charges and liabilities to be incurred in connection with effecting the Merger may differ from or be greater than anticipated, and (xxviii) uncertainties related to our business after the Merger, including our intent to invest in or acquire control of one or more operating businesses. 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 maintains a website at www.aljregionalholdings.com. 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) 244-0045.

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

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

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

PART B

SHARE STRUCTURE AND ISSUANCE HISTORY

The Company has only two classes of securities; common stock (par value $0.01) (CUSIP Number: 001627108) 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, 2012	September 30, 2011	September 30, 2010	September 30, 2012	September 30, 2011	September 30, 2010
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	57,246,598	56,934,040	49,729,574	0	0	374,556

Of the 5,000,000 shares of preferred stock authorized, 1,000,000 shares have been designated as Series A Preferred Stock, none of which are currently issued and outstanding and 550,000 shares have been designated as Series B Preferred Stock, none of which are currently issued and outstanding. As of September 30, 2012, there were 205 holders of record of the Company's common 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 2012		
First Quarter 12/31/11	0.51	0.35
Second Quarter 3/31/12	0.56	0.40
Third Quarter 6/30/12	0.55	0.38
Fourth Quarter 9/30/12	0.49	0.39
Fiscal 2011		
First Quarter 12/31/10	0.33	0.26
Second Quarter 3/31/11	0.32	0.26
Third Quarter 6/30/11	0.53	0.36
Fourth Quarter 9/30/11	0.79	0.50

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. The Company has launched a tender offer to purchase 30,000,000 shares of its common stock, as described in more detail below, intended to return a portion of the Merger proceeds to its stockholders. Otherwise, the Company intends to retain earnings for use in the Company's business operations, including any potential acquisitions.

On June 1, 2012, the Company announced that the Board had authorized the repurchase of up to 2,000,000 shares of the Company's issued and outstanding common stock, for a cost not to exceed $0.50 per share. The share repurchase program terminates on May 31, 2014. As of September 30, 2012, the Company purchased 179,100 shares through the repurchase program.

ISSUER PURCHASES OF EQUITY SECURITIES				
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Authorization of 2,000,000 share repurchase program – June 1, 2012	-	-	-	2,000,000
Quarter Ended September 30, 2012	179,100	$.4164	179,100	1,820,900

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 net operating loss carry-forwards ("NOLs") and built in losses under Section 382 ("Section 382") of the Internal Revenue Code of 1986, as amended (the "Code").

At September 30, 2012, ALJ had approximately $258 million in net operating losses and the use of such losses to offset federal income tax would be limited, if ALJ were to experience 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 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.

PART C

BUSINESS INFORMATION

RECENT EVENTS

Merger Agreement and Tender Offer

On November 18, 2012, ALJ and KES entered into a definitive merger agreement (the "Merger Agreement") for the sale of KES to Optima for $112.5 million in cash (the "Merger"). The transaction will be effected as a merger of Optima's wholly owned subsidiary KES Optima Acquisition Inc. with and into KES with KES surviving as a wholly owned subsidiary of Optima. The Merger was unanimously approved by the ALJ Board and was approved by the stockholders of ALJ at the special stockholders meeting held on December 21, 2012. The Merger is conditioned upon, among other customary closing conditions, Optima arranging and closing, no later than February 28, 2013, the sale of additional 12.5% senior secured notes due 2016 issued pursuant to that certain indenture dated as of December 5, 2011 among Optima, each of Optima's existing and future domestic subsidiaries (other than immaterial subsidiaries) as guarantors and Wilmington Trust, N.A. as trustee as trustee and noteholder collateral agent, for not less than $50 million in gross proceeds (the "Note Offering"). Optima has advised us it is not currently pursuing the Note Offering, but that it is currently exploring various potential financing options that would enable it to complete the transaction on or before the "Outside Date" under the Merger Agreement, which is February 28, 2013.

The obligation of each of the parties to consummate the Merger is also conditioned upon the other parties' representations and warranties being true and correct and the other parties having performed in all material respects their obligations under the Merger Agreement. Each of the parties made customary representations, warranties and covenants in the Merger Agreement. The Company cannot estimate when, or if, Optima will complete the Note Offering or otherwise secure sufficient financing in lieu thereof or when, or if, the other conditions to closing in the Merger Agreement will be satisfied. Therefore, the Company cannot estimate when, or if, the Merger will close.

The Merger Agreement contains certain termination rights for ALJ, KES and Optima, including, without limitation, if the Merger is not consummated on or before February 28, 2013. The Merger Agreement provides that, upon termination of the Merger Agreement under specified circumstances, including certain terminations in connection with an alternative business combination transaction as permitted by the terms of the Merger Agreement, KES may be required to pay Optima a termination fee of $3,375,000. Further, the Merger Agreement may be terminated by ALJ, KES or Optima if Optima is unable to consummate the Note Offering by February 28, 2013, and in such an event, Optima will be required to pay KES a reverse termination fee of $3,375,000.

Additionally, on November 19, 2012, the Company launched a modified "Dutch auction" tender offer for up to 30,000,000 shares of its common stock at a price per share not greater than $0.86 and not less than $0.84 (the "Tender Offer"). Under the Tender Offer, stockholders will have the opportunity to tender some or all of their shares at a price within the $0.84 to $0.86 per share price range. The Tender Offer was originally set to expire at 12:00 midnight, New York City time, on December 24, 2012. However, on December 17, 2012, the Company extended the expiration of the Tender Offer to 12:00 midnight, New York City time, on January 17, 2013. The Tender Offer is conditioned upon the closing of the Merger, which in turn is conditioned upon Optima securing sufficient financing to complete the Merger. As of December 24, 2012, 21,494,155 shares of common stock have been tendered and deposited in the Tender Offer.

In connection with the Merger and Tender Offer, ALJ has decided to postpone any relisting of its stock on a national exchange until such time when it has substantial operations and the Board determines that the cost of such listing is warranted and beneficial to ALJ stockholders.

The Company currently plans to use approximately 50% of the expected unrestricted cash at ALJ following the Merger (approximately $25.2 million to $25.8 million) to purchase up to 30,000,000 shares of its common stock from its stockholders in the Tender Offer. The Company plans to use the remainder of expected cash at ALJ following the Merger for future acquisitions or investments in other companies and businesses or for other strategic options. However, the Company is not required to make any such acquisitions, and at this time no specific acquisition targets have been determined.

If Merger is not completed, the Company expects to reassess its options in light of its strategic goals and any alternatives that may be available to it.

CURRENT BUSINESS ACTIVITIES

The Company's business is conducted through its majority-owned subsidiary, 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 with respect to the Mill 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 KES' business primarily by increasing the number of products it sells to existing customers and the development of new customers. In addition, the Company intends to seek to consummate strategic transactions as they arise, including acquisitions as discussed above.

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 ended September 30, 2005 and thereafter. The Management Agreement is effective through September 30, 2015, 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, 2012, 2013 and 2014 in which EBITDA exceeds $15,000,000. Pinnacle has significant experience and expertise in the steel industry.

Industry Conditions

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 United States has traditionally been a net importer of steel.

The U.S. steel industry has experienced many changes recently 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 54 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 ended September 30, 2012, the Mill sold 146,000 tons of finished goods, or 70% of its rolling capacity. The Company leases its ladle metallurgy furnace from SWVA, Inc., with such lease currently set to expire in May 2014.

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 1/2" 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 340 customers, two of whom accounted for more than 16% of sales for the twelve month period ended September 30, 2012, of which approximately $3.4 million was included in accounts receivable at September 30, 2012.

The Company's foreign sales as a percentage of total sales were 3% for the twelve month period ended September 30, 2012. 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, Commercial Metals Company, 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 made 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 2012.

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 periodically limit the Company's ability to increase prices.

The Company purchases approximately 67% of its billets from the open market. During the twelve month period ended September 30, 2012, the Company had three suppliers that accounted for 67% of billet purchases. These suppliers provided approximately 26%, 21%, and 20% of billet purchases, respectively. An aggregate of $1.5 million owed to these three suppliers was included in accounts payable at September 30, 2012. The Company also purchases raw materials. For the fiscal year ended September 30, 2012, the Company had four suppliers that accounted for approximately 64% of raw materials purchases, of which approximately $2.1 million was included in accounts payable at September 30, 2012.

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, 2012, 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, 2012, the Mill employed 150 individuals, approximately 81% of whom are members of the United Steelworkers of America. In December 2012, the

Mill renegotiated its collective bargaining agreement, which now expires in May 2020. We believe that the wage rates and benefits at the Mill are competitive with other mini-mills.

Property

The Company's corporate address is 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.

Minority Interests

A portion of the net income for KES is allocable to minority shareholders. The minority interest percentages for the years ended September 30, 2012, 2011 and 2010 were 16.13%, 19.79% and 19.79%, respectively. For the twelve months ended September 30, 2012, 2011 and 2010 the net income allocated to minority interest – related party was approximately $1.5 million, $1.7 million, and $1.3 million, respectively. On September 30, 2011, KES repurchased 3.66% of the outstanding shares of Series B Common Stock. As a result, the amount allocated to minority shareholders decreased to 16.13%.

Legal Proceedings

On December 5, 2012, SWVA, Inc. ("SWVA"), the lessor of KES's ladle metallurgy furnace, filed a civil lawsuit against KES in the Cabell County Circuit Court of West Virginia. The action arises from an alleged breach of the ladle metallurgy furnace lease, as a result of the Merger. Specifically, SWVA alleges that its consent is required to effect the Merger. The complaint seeks, among other remedies, injunctive relief to enjoin the Merger and further use of the ladle metallurgy furnace, and immediate payment of all sums due under the ladle metallurgy furnace lease. On December 13, 2012, SWVA filed a motion for injunctive relief seeking, among other remedies, a preliminary injunction to enjoin the Merger and further use of the ladle metallurgy furnace. On December 20, 2012, the court held a hearing and denied SWVA's motion for injunctive relief. The Company believes it has meritorious defenses to SWVA's allegations and will vigorously defend itself against this lawsuit, however, should SWVA prevail in the litigation, it could result in a loss of use of the ladle metallurgy furnace, as well as the monetary damages. While the Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company, its outcome is not determinable and a negative outcome may adversely affect the Company's financial position, liquidity, or results of operations.

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 Existing Business

Payments under our Tax Sharing Agreement are uncertain.

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

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

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

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

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

The price of steel and steel products may fluctuate significantly due to many factors beyond our control. Such fluctuation would directly affect our levels of production, sales and earnings. The domestic steel industry has been highly cyclical in nature, influenced by a combination of factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, levels of steel imports and applicable tariffs. The demand for steel products is generally affected by macroeconomic fluctuations in the United States 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 United States, 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 or repair or remediate existing equipment. To the extent that cash generated internally and cash available under our credit facility is not sufficient to fund capital requirements, KES will require additional debt and/or equity financing. However, this type of financing may not be available or, if available, may not be on satisfactory terms, particularly given the current credit crisis. Future debt financings, if available, will require the approval of KES' existing lenders and may result in increased interest and amortization expense. In addition, future debt financings by KES may limit our ability to withstand competitive pressures and render us more vulnerable to economic downturns. If KES fails to generate or obtain sufficient

additional capital in the future, KES could be forced to reduce or delay capital expenditures, sell assets or restructure or refinance its indebtedness, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us.

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

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

Competition from other materials may materially adversely affect our business.

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

Environmental regulations impose substantial costs and limitations on operations.

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

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

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

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

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

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

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

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

If demand and prices for steel deteriorate, KES' sales may decline and it may be required to recognize losses on the carrying value of its inventory. KES was not required to make any lower of cost or market adjustments to the carrying value of its inventory for the year ended September 30, 2012.

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

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

Mill management may be difficult to replace if they leave.

Management of the Mill is currently conducted by employees of Pinnacle pursuant to the Management Agreement which expires on September 30, 2015, subject to earlier termination or extension based on the performance of the Mill. Our operations and prospects depend in large part on the performance of our Mill management team. The loss of the services of one or more members of our Mill management team or the inability to attract, retain and maintain qualified additional Mill management personnel could harm our business, financial condition, results of operations and future prospects.

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

As of September 30, 2012, the Mill employed 150 individuals. If the Mill employees were to strike or we faced similar work stoppages we would experience a disruption of production at our facility, which would cause an adverse impact on our operating costs and results of operations.

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

Our total liabilities minus minority interest are approximately $54.9 million on a consolidated basis as of September 30, 2012. Subject to the limits contained in our Credit Facility and Subordinated Financing Agreement (defined below), we may also incur additional debt in the future, including to fund future acquisitions. 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 ($7.2 million Revolver and $4.0 million Term Loan at September 30, 2012), and potential future borrowings, are and may continue to be at variable rates of interest, thus exposing us to interest rate risk. If interest rates increase, our debt service obligations on our variable rate indebtedness would increase even if the amount borrowed remained the same, resulting in a decrease in our net income. For example, if interest rates increased in the future by 100 basis points, based on our current borrowings as of September 30, 2012, we would incur approximately an additional $112,000 per annum in interest expense.

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

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

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

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders, our ability to use our NOLs and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We had approximately $258 million of (pre-tax) NOLs as of September 30, 2012. The NOLs do not begin to expire until 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

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

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

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

Additionally, if the Merger is completed, our ability to utilize our NOLs to offset future tax liabilities may be limited even if we acquire another business which generates taxable income. For example, if it takes us substantially more than one year to acquire another business, we may be treated as having liquidated for U.S. federal income tax purposes, which could prevent us from being able to use our NOLs to offset future income of the new business.

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

The Subordinated Financing Agreement and Credit Facility contain a number of financial covenants requiring KES to meet financial ratios and financial condition tests, as well as covenants restricting its ability to:

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

- transfer or sell our assets.

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

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

A loss of any large customer or group of customers could materially reduce our sales and earnings. We have substantial business relationships with a few large customers. For the year ending September 30, 2012, the Company had two customers that accounted for approximately 16% of net sales. We expect to continue to depend upon a small number of customers for a significant percentage of our net sales, and cannot assure you that any of them will continue to purchase steel from us.

Our internal controls and procedures may be deficient.

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

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

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

We may encounter difficulties in acquiring other companies.

We acquired the Mill effective March 1, 2005 and may in the future acquire other companies, particularly if the Merger is completed. 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 business acquisitions we make will be successful.

We cannot assure you that any completed acquisition will be successful and that our investments will yield a favorable return. Our management may not have experience in the industry in which we decide to invest. Until we select a particular industry or business in which to complete an acquisition, there is no current basis for you to ascertain the merits or risks of the industry or business in which we may ultimately operate. Although we will evaluate the risks inherent in a particular target business, we cannot assure you that all of the significant risks present in that target business will be properly assessed. Even if we properly assess those risks, some of them may be outside of our control. Further, we anticipate that acquisitions would be made largely or completely with cash, meaning a substantial portion of our available cash could be used to consummate the acquisitions or we could incur or assume significant amounts of indebtedness. We also may experience significant financial, managerial and operational challenges in the integration of acquired businesses. Also, we are required to account

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

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

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

If we fail to complete the Merger, our relationship with one of our largest customers may be significantly impaired.

We cannot assure you that the Merger will be completed. The completion of the Merger is subject to the satisfaction of a number of conditions, including, among others, Optima securing sufficient financing to complete the Merger and the absence of any law or governmental order prohibiting the Merger. In addition, we or Optima may terminate the Merger Agreement if the Merger has not been completed on or before February 28, 2013. We cannot guarantee that we or Optima will be able to meet all of the closing conditions of the Merger Agreement, and certain of the closing conditions are outside of our control. If we or Optima are unable to meet all of the closing conditions, the Merger Agreement may be terminated.

Optima and its affiliates are one of our largest customers and accounted for approximately 11.6% of our revenues in the past twelve months. If the Merger is not consummated, Optima may decide to no longer purchase substantial amounts of KES' products, or they may renegotiate the prices and terms on which they purchase KES' products. If we were to lose this business on its current terms, we would be required to find new business to replace it or we could sustain substantial harm to our business. We may be unable to find new business to replace Optima and its affiliates at prices or on terms that are sufficient to avoid such harm.

The announcement of the Merger may harm our relationships with existing or prospective customers and suppliers.

As a result of the announcement of the Merger, our customers and suppliers may decide to terminate their relationships with us. Our customers and suppliers may have strategic, competitive, business or risk-based reasons to do business with our competitors rather than with Optima or its affiliated entities. Also, new or existing customers and suppliers may prefer to enter into agreements with our competitors who have not expressed an intention to sell their business because customers and suppliers may perceive that such new relationships are likely to be more stable. If we fail to complete the Merger, a failure to maintain existing business relationships or enter into new ones could adversely affect our business, results of operations and financial condition.

Our executive officers and directors have interests in the Merger that may be different from, or in addition to, the interests of our stockholders generally.

Our executive officers and directors have interests in the Merger that may be different from, or in addition to, the interests of our stockholders generally. Messrs. Byer, Fritz and Ravich hold certain debt and equity of KES that will be purchased or

prepaid in connection with the Merger, and Mr. Scheel is a principal of and receives compensation from Pinnacle, which will receive a termination payment of $5,146,000 in connection with the Merger. Executive officers and directors of KES also have rights to indemnification and directors' and officers' liability insurance that will survive completion of the Merger. These interests may cause our directors and executive officers to view the Merger differently and more favorably than you may view it.

We are dependent upon our officers and directors and their loss could adversely affect our ability to operate.

Our operations are dependent upon a relatively small group of individuals and, in particular, our officers and directors. We believe that our success depends on the continued service of our officers and directors, at least until we have consummated an acquisition. In addition, our officers and directors are not required to commit any specified amount of time to our affairs and, accordingly, will have conflicts of interest in allocating management time among various business activities, including identifying potential acquisition opportunities and monitoring the related due diligence. The unexpected loss of the services of one or more of our directors or officers could have a detrimental effect on us.

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

Although we may apply to list our common stock on NASDAQ, the American Stock Exchange or some other securities exchange in the future, we currently have no plans to do so if the Merger is completed. Even if we were to determine to pursue a listing, we also cannot assure you that we would be able to meet the initial listing standards, including the minimum per share price and minimum capitalization requirements, or that we would be able to maintain a listing of our common stock on either of those or any other trading venue. Until such time as we determine to list and qualify for listing on NASDAQ, the American Stock Exchange or another trading venue, our common stock will continue to be quoted on the Pink Sheets, which may make it more difficult for an investor to dispose of shares or obtain accurate quotations as to the market value of our common stock.

The Merger Agreement contains provisions that could discourage a potential competing acquirer of KES or ALJ.

The Merger Agreement contains "no shop" and "no talk" provisions that, subject to limited exceptions, restrict each of KES' and ALJ's ability to solicit, initiate, knowingly encourage, participate in and facilitate competing third-party proposals for the acquisition of their respective company's stock or assets, or participate in any discussions or negotiations regarding, or furnish any information regarding KES in connection with, any such takeover proposal. In addition, Optima generally has an opportunity to offer to modify the terms of the Merger Agreement in response to any competing acquisition proposal before our Board of Directors may change its recommendation with respect to the Merger or we or KES may terminate the Merger Agreement.

Under the Merger Agreement, we may also be required to pay Optima a termination fee of 3.0% of the total purchase price, or $3,375,000, if the Merger Agreement is terminated by ALJ or KES to pursue a superior company proposal or by any of ALJ, KES or Optima as a result of the Merger failing to close by February 28, 2013, if within twelve months of such termination, ALJ or KES either enters into an agreement for or consummates an acquisition by a person with whom ALJ or KES was engaging in discussions prior to such termination.

These provisions could discourage a potential third-party acquirer that might have an interest in acquiring all or a significant portion of KES or ALJ from considering or proposing that acquisition, even if it were prepared to pay higher consideration than proposed to be received or realized in the Merger. These provisions might also result in a potential third-party acquirer proposing to pay a lower price to the stockholders than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances.

If we fail to complete the Merger, we may be unable to find a favorable strategic alternative.

If the Merger is not approved or does not close, our Board of Directors will be forced to evaluate other alternatives, which may be less favorable to us than the proposed Merger. We may seek another strategic transaction, among other options, including the sale of all or part of our business, but there may not be any other offers from potential acquirers. Although we have had discussions with various parties in the past, none of these parties may now have an interest in a strategic transaction with us or be willing to offer a reasonable purchase price.

The Company's business could be adversely impacted as a result of uncertainty related to delay in the closing of the Merger.

Uncertainty associated with a delay in the closing of the Merger could cause disruptions to the Company's business or business relationships, which could have an adverse impact on the Company's results of operations, liquidity and financial condition. If the Merger is delayed, the attention of the Company's management may be directed to Merger-related considerations for a prolonged period which could adversely impact the Company's business. Additionally, parties with which the Company has business relationships, including customers and suppliers, may experience uncertainty as to the future of such relationships and seek alternative relationships or seek to alter their present business relationships with the Company. In addition, the Company has incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the Merger, and many of these fees and costs are payable regardless of whether or not the Merger is consummated.

If the Merger is completed, we will be a company with minimal to no operations and a relatively large cash balance.

Once the Merger is completed, we will continue to incur ongoing expenses for employee salaries and certain other expenses while we look to find another business to acquire but will have no operations to produce cash. We cannot assure you how much of the cash proceeds, if any, will ultimately be distributed to stockholders or will be available for future acquisitions.

Optima's inability to obtain the financing necessary to complete the Merger could delay or prevent the completion of the Merger.

The closing of the Merger is conditioned upon Optima closing the Note Offering on or before February 28, 2013. Optima has advised us it is not currently pursuing the Note Offering, but that it is currently exploring various potential financing options that would enable it to complete the Merger on or before February 28, 2013. However, there can be no assurances that Optima will be able to secure sufficient financing to complete the Merger. If Optima is unable to timely obtain the financing, the closing of the Merger could be significantly delayed or may not occur at all.

Under the Merger Agreement, Optima will be required to pay us a reverse termination fee of 3.0% of the total purchase price, or $3,375,000, if the Merger Agreement is terminated by either Optima, on the one hand, or ALJ or KES, on the other hand, due to Optima's failure to complete the Note Offering by February 28, 2013.

We may not be able to identify suitable acquisition targets at prices we consider appropriate.

We intend to use the proceeds from the Merger, less any such proceeds used for the Tender Offer, to invest in or acquire control of one or more operating businesses through merger, capital stock exchange, stock purchase, asset acquisition or other similar investment. However, we are not obligated to do so, and no specific acquisition targets have been designated at this time. There can be no assurances that we will be able to identify suitable acquisition targets. If we do identify an appropriate acquisition target, we may not be able to successfully and satisfactorily negotiate the terms of the acquisition, including a price that we consider acceptable.

Because of our structure, other companies may have a competitive advantage and we may not be able to consummate an attractive acquisition.

In pursuing our acquisition strategy, we expect to encounter competition from entities having a business objective similar to ours, including venture capital funds, leveraged buyout funds and operating businesses. Many of these entities are well established and have extensive experience in identifying and effecting acquisitions directly or through affiliates. Many of these competitors possess greater technical, human and other resources than we do and our financial resources will be relatively limited when contrasted with those of many of these competitors. While we believe that there are potential acquisition targets that we could acquire with the net proceeds of the Merger, our ability to compete in acquiring certain sizable acquisition targets will be limited by our available financial resources. This inherent competitive limitation gives others an advantage in pursuing the acquisition of certain target businesses. In addition, we are limited in our ability to issue common stock due to limitations arising from maintaining our NOLs, and such limitation may impede our ability to structure any acquisition. Any of the foregoing may place us at a competitive disadvantage in successfully negotiating any acquisition.

Subsequent to any acquisition, we may be required to take or incur write-downs or write-offs, restructuring and impairment or other charges or expenditures that could have a significant negative effect on our financial condition, results of operations and our stock price, which could cause you to lose some or all of your investment.

Even if we conduct extensive due diligence on an acquisition target that we acquire, we cannot assure you that this diligence will surface all material issues that may be present inside a particular acquisition target, that it would be possible to uncover all material issues through a customary amount of due diligence, or that factors outside of the acquisition target and outside of our control will not later arise. As a result of these factors, we may be forced to later write-down or write-off assets, restructure our operations, or incur impairment or other charges or expenditures that could result in our reporting losses. Even if our due diligence successfully identifies certain risks, unexpected risks may arise and previously known risks may materialize in a manner not consistent with our preliminary risk analysis. Even if these charges are non-cash items and do not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our securities. In addition, charges of this nature may cause us to violate net worth or other covenants to which we may be subject as a result of assuming pre-existing debt held by an acquisition target or by virtue of our obtaining financing in connection with any such acquisition. Further, unexpected expenses could have a serious impact on our liquidity.

A significant portion of our cash could be expended in pursuing acquisitions that are not consummated.

It is anticipated that the investigation of each specific acquisition target and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial time and attention and substantial costs for accountants, attorneys and others. In addition, we may opt to make down payments or pay exclusivity or similar fees in connection with structuring and negotiating an acquisition. If a decision is made not to complete a specific acquisition, the costs incurred up to that point in connection with the abandoned transaction, potentially including down payments or exclusivity or similar fees, will not be recoverable. Furthermore, even if an agreement is reached relating to a specific acquisition target, we may fail to consummate the transaction for any number of reasons including those beyond our control. Any such event will result in a loss to us of the related costs incurred, which could materially and adversely affect our subsequent attempts to locate and combine with another business.

We may be unable to obtain equity or debt financing, if required, to complete an acquisition or to fund the operations and growth of an acquisition target.

We may be required to seek additional financing through the issuance of equity or debt securities or other financing arrangements to complete an acquisition or under an employee incentive plan after consummation of an acquisition. We cannot assure you that such financing will be available on acceptable terms, if at all. To the extent that additional financing proves to be unavailable when needed to consummate a particular acquisition, we may be compelled to restructure or abandon that particular acquisition and seek alternative acquisition targets. The presence of a financing contingency will make us less competitive in relation to other bidders in a particular transaction. In addition, if we complete an acquisition, we may require additional financing to fund the operations or growth of the acquisition target. The failure to secure additional financing could have a material adverse effect on the continued development or growth of our combined business or businesses.

We may only be able to complete one acquisition with the proceeds of the Merger, which will cause us to be solely dependent on a single business which may have a limited number of products or services.

It is likely we will only be able to complete an acquisition of a single target business given our limited cash resources and need to rely on substantial leverage. By consummating an acquisition with only a single entity, our lack of diversification may subject us to numerous economic, competitive and regulatory developments. Further, we would not be able to diversify our operations or benefit from the possible spreading of risks or offsetting of losses, unlike other entities which may have the resources to complete several acquisitions in different industries or different areas of a single industry. Accordingly, the prospects for our success may be solely dependent upon the performance of a single business, or dependent upon the development or market acceptance of a single or limited number of products, processes or services.

This lack of diversification may subject us to numerous economic, competitive and regulatory developments, any or all of which may have a substantial adverse impact upon the particular industry in which we may operate subsequent to our initial acquisition.

Alternatively, if we acquire more than one business, we could also face additional risks, including additional burdens and costs with respect to possible multiple negotiations and due diligence investigations (if there are multiple sellers) and the additional risks associated with the subsequent assimilation of the operations and services or products of the acquired companies. If we are unable to adequately address these risks, it could negatively impact our profitability and results of operations.

Since we have not yet selected a particular industry or acquisition target, we are unable to currently ascertain the merits or risks of the industry or business in which we may ultimately operate.

We may acquire a company in any industry we choose and are not limited to any particular industry or type of business. Accordingly, there is no current basis for you to evaluate the possible merits or risks of the particular industry in which we may ultimately operate or the target business which we may ultimately acquire. To the extent we complete an acquisition with a financially unstable company or an entity in its development stage, we may be affected by numerous risks inherent in the business operations of those entities. If we complete an acquisition with an entity in an industry characterized by a high level of risk, we may be affected by the currently unascertainable risks of that industry. Although our management will endeavor to evaluate the risks inherent in a particular industry or target business, we may not properly ascertain or assess all of the significant risk factors.

The officers and directors of an acquisition target may resign upon consummation of an acquisition. The loss of an acquisition target's key personnel could negatively impact the operations and profitability of the target after the acquisition.

The role of an acquisition target's key personnel upon the consummation of an acquisition cannot be ascertained at this time. Although we contemplate that certain members of an acquisition target's management team will remain associated with the acquisition target following an acquisition, it is possible that members of the management of an acquisition target will not wish to remain in place.

After the Merger, we will be exposed to fluctuations in the value of our investment portfolio.

We intend to invest the proceeds from the Merger in investment-grade, interest-bearing securities such as money market funds, certificates of deposit, or direct or guaranteed obligations of the U.S. government, or keep them as cash. We cannot predict whether the proceeds invested will yield a favorable return. Our management will have broad discretion in the application of the Merger proceeds, and stockholders will be relying on the judgment of our management regarding the application of the net proceeds.

Any significant decline in the market value of our cash, cash equivalents and marketable securities could materially adversely affect our financial condition and operating results. Credit ratings and pricing of investment securities can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, the value and liquidity of ALJ's cash, cash equivalents and marketable securities could decline and result in a significant impairment, which could materially adversely affect ALJ's financial condition and operating results.

We may issue additional common or preferred shares to complete an acquisition or under an employee incentive plan after consummation of an acquisition, which would dilute the interest of our stockholders and likely present other risks.

We may issue a substantial number of additional shares of common or preferred stock in connection with an acquisition or under an employee incentive plan after consummation of an acquisition. The issuance of additional shares of common or preferred stock:

- may significantly dilute the equity interest of holders of common stock;
- may subordinate the rights of holders of common stock if preferred stock is issued with rights senior to those afforded our common stock;
- could cause a change in control if a substantial number of common stock is issued, which may affect, among other things, our ability to use our NOLs, if any, and could result in the resignation or removal of our present officers and

directors; and

- may adversely affect prevailing market prices for our common stock.

Following the consummation of the Merger, we may be required to register as an "investment company" under the Investment Company Act if we fail to acquire another operating business within one year.

We are not engaged in the business of investing, reinvesting or trading in securities, and we do not hold ourselves out as being engaged in those activities. However, under the Investment Company Act of 1940, as amended (the "Investment Company Act"), a company may fall within the scope of being an "inadvertent investment company" if the value of its investment securities (as defined in the Investment Company Act) is more than 40% of its total assets (exclusive of government securities and cash and certain cash equivalents). Our investment securities will likely have a value in excess of 40% of the value of our total assets (exclusive of government securities and cash and certain cash equivalents) following the closing of the Merger.

There is an exception that would give us a grace period of one year if we become an inadvertent investment company before we would be required to register as an investment company. This exception would allow us one year from the date of becoming an inadvertent investment company to become engaged primarily in businesses other than investing, reinvesting, owning, holding or trading in securities.

In order to cease being an inadvertent investment company, we intend to acquire one or more operating businesses, or at least controlling interests in one or more operating businesses, so that our principal business will be other than that of investing, reinvesting, owning, holding or trading in securities. There can be no assurance that we will be able to complete such acquisitions by the applicable deadline.

In the event that we are required to register as an investment company under the Investment Company Act, we would be forced to comply with substantive requirements including limitations on our ability to borrow, limitations on our capital structure, limitations on the issuance of debt and equity securities, restrictions on acquisitions of interests in partner companies, prohibitions on transactions with affiliates, prohibitions on the issuance of options and other limitations on our ability to compensate key employees, certain governance requirements, restrictions on specific investments and reporting and record-keeping, voting and proxy disclosure requirements. In the event that we are deemed to be an investment company subject to registration as such under the Investment Company Act, compliance costs and burdens upon ALJ may increase and the additional requirements may adversely affect our business, results of operations or financial condition.

We face litigation as a result of the Merger.

On December 5, 2012, SWVA, Inc. ("SWVA"), the lessor of KES's ladle metallurgy furnace, filed a civil lawsuit against KES in the Cabell County Circuit Court of West Virginia. The action arises from an alleged breach of the ladle metallurgy furnace lease, as a result of the Merger. Specifically, SWVA alleges that its consent is required to effect the Merger. The complaint seeks, among other remedies, injunctive relief to enjoin the Merger and further use of the ladle metallurgy furnace, and immediate payment of all sums due under the ladle metallurgy furnace lease. On December 13, 2012, SWVA filed a motion for injunctive relief seeking, among other remedies, a preliminary injunction to enjoin the Merger and further use of the ladle metallurgy furnace. On December 20, 2012, the court held a hearing and denied SWVA's motion for injunctive relief. The Company believes it has meritorious defenses to SWVA's allegations and will vigorously defend itself against this lawsuit, however, should SWVA prevail in the litigation, it could result in a loss of use of the ladle metallurgy furnace, as well as the monetary damages. While the Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company, its outcome is not determinable and a negative outcome may adversely affect the Company's financial position, liquidity, or results of operations.

Risks Related to the Proposed Tender Offer

The Tender Offer may increase the proportionate holdings of our directors, officers and significant stockholders.

If we complete the Tender Offer the proportionate holdings of our directors, officers and significant stockholders that do not participate in the Tender Offer will likely increase. Pursuant to the voting and tender agreement dated November 18, 2012 between Jess Ravich, our Chairman and a 19.5% stockholder and Joseph Corso, Jr., a 21.2% stockholder who does not

otherwise currently participate in our management, Mr. Ravich agreed not to tender shares and Mr. Corso agreed to tender all of his shares at $0.84 per share in the Tender Offer. Accordingly, should the Tender Offer be fully subscribed, Mr. Corso's ownership would fall to approximately 14.5% of our remaining issued and outstanding shares on a fully diluted basis, assuming he holds his remaining shares following the completion of the Tender Offer, and Mr. Ravich and his affiliates' beneficial ownership will increase to 44.6% of the issued and outstanding shares remaining in ALJ on a fully diluted basis.

Mr. Ravich would have significant control over our management and affairs through the election and removal of our entire Board of Directors and all other matters requiring stockholder approval, including the future merger, consolidation or sale of all or substantially all of our assets. This concentrated control could discourage others from initiating any potential merger, takeover or other change-of-control transaction that may otherwise be beneficial to our stockholders. Furthermore, this concentrated control will limit the practical effect of your participation in ALJ matters, through stockholder votes and otherwise.

Even if the Merger is consummated, we may not consummate the Tender Offer, or may consummate the Tender Offer only after a significant delay.

The Tender Offer is subject to a number of terms and conditions, as set forth more fully in the Offer to Purchase, dated November 19, 2012 and mailed to stockholders on November 19, 2012. The Tender Offer is not conditioned on any minimum number of shares being tendered. However, we will not be required to accept for payment, purchase or pay for any shares of ALJ Common Stock tendered, and may terminate or amend the Tender Offer or may postpone the acceptance for payment of, or the purchase of and the payment for shares tendered, if certain events shall have occurred (or shall have been reasonably determined by us to have occurred) and, in our reasonable judgment, such event or events make it inadvisable to proceed with the Tender Offer. Events that may cause us to not consummate the Tender Offer, or delay the consummation of the Tender Offer include, but are not limited to:

- any action or proceeding by any authority that challenges the making of the Tender Offer, the acquisition of some or all of the shares under the Tender Offer or otherwise relates in any manner to the Tender Offer, or in our reasonable judgment, could materially and adversely affect our business, condition, assets, income, operations, or otherwise materially impair in any way the conduct of our business or materially impair our ability to achieve the purposes of the Tender Offer;

- any action pending or taken, or approval withheld, or any statute, rule, regulation, judgment, order or injunction proposed, sought, promulgated, enacted, entered, amended, enforced or deemed to be applicable to the Tender Offer or us, by any court or authority, that, in our reasonable judgment, would make the acceptance for payment of, or payment for, some or all of the shares illegal or otherwise restrict or prohibit completion of the Tender Offer; delay or restrict our ability, or render us unable, to accept for payment or pay for some or all of the shares; materially impair our ability to achieve the purposes of the Tender Offer; or materially and adversely affect our business, condition (financial or otherwise), assets, income, operations or prospects or those of our subsidiaries, taken as a whole, or otherwise materially impair the conduct of our business or the business of any of our subsidiaries;

- there shall have occurred any general suspension of trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market in the United States; any decrease of more than 10% in the general level of market prices for equity securities in the Dow Jones Industrial Average, New York Stock Exchange Index, NASDAQ Composite Index or the Standard and Poor's 500 Composite Index measured from the close of trading on November 19, 2012;

- a tender offer or exchange offer for any or all of the shares (other than the Tender Offer), or any merger, business combination or other similar transaction with or involving us or any of our subsidiaries or affiliates (other than the Merger), shall have been proposed, announced or made by any person;

- we shall have reasonably determined that the consummation of the Tender Offer and the purchase of the shares may jeopardize our NOLs or otherwise adversely affect our ability to utilize our NOLs; or

- we reasonably determine that any approval, permit, authorization, favorable review or consent of any governmental entity may be required in connection with the Tender Offer or the purchase of shares thereunder.

Therefore, even if the Merger is consummated, there is no guarantee that the Tender Offer will be consummated at any particular time, or at all.

The Tender Offer will reduce our “public float,” which may result in lower stock prices or reduced liquidity in the trading market for our shares in the future.

Our purchase of shares pursuant to the Tender Offer may reduce the number of shares of common stock that might otherwise be traded publicly and may reduce the number of stockholders. These reductions may reduce the volume of trading in our shares of common stock and may result in lower stock prices and reduced liquidity in the trading of our shares of common stock following completion of the Tender Offer. Stockholders may be able to sell non-tendered shares of common stock in the future, at a net price higher or lower than the Purchase Price in the Tender Offer. We can give no assurance, however, as to the price at which a stockholder may be able to sell such shares in the future.

We may purchase additional shares in the open market subject to market conditions on the same terms, or on terms more or less favorable to stockholders, than the Tender Offer.

Subject to the requirements of Rule 14e-5 under the Exchange Act, we are generally prohibited from purchasing any shares, other than through the Tender Offer, until the expiration of the Tender Offer. Following expiration of the Tender Offer, we may purchase additional shares in the open market subject to market conditions. We may also purchase shares in private transactions, tender offers, or otherwise. Any of these purchases may be on the same terms as, or on terms more or less favorable to stockholders than, the terms of the Tender Offer. Any possible future purchases by us will depend on many factors, including the market price of our common stock, the results of the Tender Offer, our business and financial position, and general economic and market conditions.

The Tender Offer will increase the proportionate holdings of other non-tendering stockholders.

Stockholders who do not tender their shares pursuant to the Tender Offer and stockholders who otherwise retain an equity interest in the Company as a result of a partial tender of shares, proration or a conditional tender for which the condition is not satisfied will continue to be stockholders of the Company and will realize a proportionate increase in their relative equity interest in the Company and will bear the risks and rewards associated with owning the equity securities of the Company, including risks resulting from the Company’s purchase of shares.

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, which may become more limited if we complete the Tender Offer, and we can provide no assurance to investors that a more robust market will develop. If a broader market for our common stock does not develop, our stockholders may encounter difficulties selling their common stock from time to time. We do not have the ability to uplist our stock on NASDAQ, the NYSE or the AMEX exchanges because we do not meet the qualifications for listing on those exchanges at this time.

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

The SEC 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. We have launched the Tender Offer as a means to return a portion of the Merger consideration to our stockholders, but as it is conditioned on the Merger, there are no assurances that it will be completed. 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 designed to preserve the value of certain tax assets primarily associated with our NOLs and built in losses under Section 382. At September 30, 2012, the Company had approximately $258 million in net operating losses and the use of such losses to offset federal income tax would be limited, if the Company experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company's stock by value increase their collective ownership of the aggregate amount of the Company's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

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

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

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	57	Chief Executive Officer, President and Class I Director
T. Robert Christ	43	Chief Financial Officer
Hal G. Byer	55	Class II Director
Robert Scott Fritz	55	Class I Director
Olimpio Lee Squitieri	54	Class II Director
Jess M. Ravich	55	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 July 2012, the Company re-elected Jess Ravich as a Class III Director with a term expiring 2015. The Class I and Class II directors' terms expire in 2013 and 2014, 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 is a principal of and also currently serves as the Chief Operating Officer of Pinnacle Steel, LLC, and pursuant to the Management Agreement between 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 held various positions of increased responsibility at AK Steel, Nucor Corporation and Birmingham Steel Management. 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 also serves as Executive Vice President for Aristotle International Inc., a political software company and age and identity verification company ("Aristotle"). 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. 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 Senior 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 The TCW Group as Group Managing Director in December 2012. Prior to that, Mr. Ravich was Managing Director at Houlihan Lokey since 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 and compensation committee of Cherokee Inc. (Nasdaq GS: CHKE). Mr. Ravich has also served as chairman of the board of directors of Cherokee Inc. since January 2011. In addition to his professional responsibilities, Mr. Ravich has also served 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.

There are no family relationships among or between the Company's directors, officers, or beneficial owners of more than five percent (5%) of any class of the Company's securities.

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 ended September 30, 2012. 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 Stock Awards	All Other Compensation
John Scheel (1)	2012	$ $60,000	0	0	$ 25,000
Chief Executive Officer, Director	2011	$ $60,000	0	21,186	$ 12,500
	2010	$ $60,000	0	32,894	$ 12,500

T. Robert Christ (2)	2012	$	$60,000	0	0	0
Chief Financial Officer and Secretary	2011	$	$60,000	0	0	0
	2010	$	$60,000	0	0	0

(1) Mr. Scheel has served as President and Chief Executive Officer since August 31, 2006. Mr. Scheel received $25,000 as director compensation for each of 2012, 2011, and 2010, of which all $25,000 was paid in cash for 2012 and $12,500 was paid in cash for 2011 and 2010. In 2011 and 2010, the remaining 50% of Mr. Scheel's director compensation was paid in shares of restricted stock valued at the fair market value on the date of grant. Mr. Scheel's annual salary is $60,000. Mr. Scheel also receives compensation from Pinnacle, which manages the Mill and of which he is a principal. For the fiscal years ended September 30, 2012, 2011 and 2010, Pinnacle's management fees were $2,405,096, $2,823,355, and $1,498,061, respectively.

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

Director Compensation

Pursuant to the director compensation program adopted in June 2008, each member of the Board receives annual compensation of $25,000, 50% of which is paid in cash and 50% of which is paid in shares of restricted stock valued at the fair market value on the date of grant. Directors may also be reimbursed for any out-of-pocket expenses they incur in the performance of their responsibilities for us. For 2012, pursuant to a one-time modification of the 2008 director compensation program approved at the July 27, 2012 board meeting, directors received their entire $25,000 of director compensation in cash.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of November 28, 2012, 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, 2012, the Company had 57,267,498 shares (59,467,498 on a fully diluted basis) of ALJ 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	1,185,099(2)	2.07%
Hal G. Byer, Director c/o Houlihan Lokey 1930 Century Park West Los Angeles, CA 90067	516,028	*%
Olimpio Lee Squitieri, Director 32 East 57th Street, 12th Floor New York, NY 10022	1,305,510(3)	2.28%
Jess M. Ravich, Chairman of the Board 149 S. Barrington Avenue, #828 Los Angeles, CA 90049	13,154,569(4)	22.20%
John Scheel, Director and Chief Executive Officer c/o KES Acquisition Company	738,460	1.29%

2704 South Big Run Road Ashland, Kentucky 41102		
T. Robert Christ, Chief Financial Officer P.O. Box 99418 San Diego, CA 92169	200,000(5)	*%
All current directors and officers as a group	17,099,666(6)	28.75%
5% Stockholders:		
Joseph Corso Jr. 167 Zock Road Cuddlebackville, NY 12729	12,139,000(7)	21.20%
Palermo Ravich Foundation 5700 Wilshire Blvd., Suite 2000 Los Angeles, CA 90036	4,044,834	7.06%

(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 28, 2012 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 431,088 shares held by The Ravich Children Permanent Trust, for which Mr. Fritz is the sole trustee.

(3) Includes 202,000 shares held in a custodial account for the benefit of Mr. Squitieri's daughter over which he has dispositive power. Mr. Squitieri disclaims beneficial ownership for these shares.

(4) Includes 5,288,751 shares held by the Exemption Trust under the Ravich Revocable Trust of 1989 and 5,844,632 shares held by Ravich Revocable Trust of 1989, as well as, 2,000,000 shares issuable upon exercise of currently vested options. Includes 2,000,000 shares issuable upon exercise of currently vested options.

(5) Includes 200,000 shares issuable upon exercise of currently vested options.

(6) Includes 2,200,000 shares issuable upon exercise of currently vested options.

(7) Based on information provided to the Company by Mr. Corso.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain Relationships and Related Transactions

Since the acquisition of the Mill, the Mill has been operating under the Management Agreement with Pinnacle. Pinnacle is entitled to a monthly management fee and a management incentive fee as provided in the Pinnacle Agreement. John Scheel, a director of the Company, is a principal of and receives compensation from Pinnacle.

In addition, the Management Agreement provides for automatic termination following a change of control of KES, with a termination fee payable in an amount equal to two times the sum of the monthly management fees and management incentive fees paid during the prior 12-month period. In connection with the Merger, the Management Agreement will terminate as of the Merger closing and Pinnacle will receive a termination payment of $5,146,000, which reflects a discount of approximately $0.5 million agreed to by Pinnacle by utilizing the 2012 fiscal results instead of the 2011 fiscal results in calculating such fee.

Jess Ravich, who is the Chairman of the Board of the Company and a director of KES, holds, either directly or through a related trust: (i) $3,323,225 in principal of Subordinated Loans (defined below) including accrued but unpaid interest thereunder, (ii) 1,562 shares of Series B Common Stock of KES, (iii) 11,154,569 shares of ALJ common stock (along with 2,000,000 vested and unexercised options), and (iv) 1,187 shares of Series A Preferred Stock of KES. Additionally, Libra Securities, an affiliate of Mr. Ravich, holds (x) $3,909,571 in aggregate principal of Subordinated Loans including accrued but unpaid interest thereunder, (y) 3,657 shares of Series B Common Stock of KES and (z) 712 shares of Series A Preferred Stock of KES.

Robert Scott Fritz and Hal G. Byer, both directors of the Company, hold $186,544 and $166,437, respectively, in aggregate principal of Subordinated Loans including accrued but unpaid interest thereunder, and hold 144 and 79 shares, respectively, of Series B Common Stock of KES.

In connection with the Merger, the Subordinated Loans will be prepaid in whole, along with accrued interest and without penalty. Immediately prior to the consummation of the Merger, the Series B Common Stock of KES will be purchased by Merger Sub for the same consideration per share that ALJ will receive as a holder of the Series A Common Stock of KES and the Series A Preferred Stock of KES will be purchased by Merger Sub.

On February 15, 2011, we repurchased 25,390, 33,854 and 10,156 shares of our Series A Preferred Stock (the "ALJ Repurchased Stock") from Messrs. Fritz, Byer, and Jon Diamond, a former director of the Company, respectively, plus accrued dividends thereon for aggregate consideration of $277,600 (the "ALJ Stock Repurchase"). The ALJ Repurchased Stock had a face value of approximately $277,600 plus accrued dividends of approximately $147,485. The ALJ Stock Repurchase was effected pursuant to stock repurchase agreements between the Company and the holders of the ALJ Repurchased Stock dated February 15, 2011.

On June 16, 2011, we repurchased the remaining 305,156 shares of our Series A Preferred Stock, including all accrued but unpaid dividends thereon (the "Ravich Repurchased Stock"), from a trust related to Mr. Ravich, for aggregate consideration of 3,774,632 shares of ALJ common stock (the "Ravich Stock Repurchase"). The aggregate liquidation value of the Ravich Repurchased Stock was approximately $1,887,316. The Ravich Stock Repurchase took place at an implied price of $0.50 per share. The Ravich Stock Repurchase was effected pursuant to a Series A Preferred Stock Exchange Agreement between the Company and the holder of the Ravich Repurchased Stock dated June 16, 2011. Following the Ravich Stock Repurchase, there are no shares of Series A Preferred Stock outstanding.

In connection with the refinance of the Credit Facility in September 2011, KES entered into a Fee and Reimbursement Agreement dated as of September 30, 2011 by and among KES, Mr. Ravich, a trust related to Mr. Ravich, and another guarantor. Mr. Ravich, the related trust and the other guarantor collectively guaranteed KES' term loan under the Credit Facility. KES agreed to pay the related trust a one-time fee of $100,000 at the closing on September 30, 2011, and $250,000 upon and in the event that Mr. Ravich shall cease to be a member of the Board other than by reason of his voluntary resignation therefrom. In connection with the prior refinance of KES' Credit Facility in May 2010, KES entered into a Fee and Reimbursement Agreement dated as of May 28, 2010 by and among KES, Mr. Ravich and the related trust. Mr. Ravich and the related trust collectively guaranteed KES' term loan under the Credit Facility. KES agreed to pay Mr. Ravich and the related trust a one-time fee of $100,000 at the closing on May 28, 2010, and an additional $50,000 on the first anniversary of the closing.

On September 30, 2011, KES repurchased $9.1 million of aggregate principal of the Subordinated Loans plus $2.9 million in accrued interest thereon from the holders thereof. The Subordinated Loans repurchased included principal of $49,084 repurchased from Mr. Fritz, principal of $87,587 repurchased from Mr. Byer, principal of $1.8 million repurchased from a trust related to Mr. Ravich, principal of $2.1 million repurchased from Libra Securities and principal of $140,836 repurchased from the Company.

The terms of all of the foregoing transactions were approved by the independent members of our Board of Directors.

FINANCIAL INFORMATION

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

Consolidated Balance Sheets —

Years Ended September 30, 2012, 2011, and 2010

Consolidated Statements of Operations —

Years Ended September 30, 2012, 2011, and 2010

Consolidated Statement of Stockholders' Deficiency —

Years Ended September 30, 2012, 2011, and 2010

Consolidated Statements of Cash Flows —

Years Ended September 30, 2012, 2011, and 2010

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.

Sales are made on an unsecured basis. Consequently, management reviews outstanding receivables and provides an allowance for doubtful accounts for those accounts that are expected to become uncollectible. The Company uses the allowance method to account for uncollectible accounts receivable. The Company's estimate is based on historical collection experience in its trade and a review of the current status of trade 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 monthly to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs. All inventories are carried at average cost.

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.

Income Taxes

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

The Company recognizes uncertain income tax positions using the “more-likely-than-not” approach as defined in the ASC. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

The Company recognizes interest related to uncertainties in income taxes, if any, in interest expense and penalties in operating expenses.

Asset Retirement Obligations

The Company accounts for its asset retirement obligations in accordance with applicable standards which require 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.

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 estimates claims incurred but not reported in accrued expenses in the balance sheet.

Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board (“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, 2012, 2011, and 2010.

Use of Estimates

The preparation of the financial statements in conformity with GAAP 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.

Results of Operations for the Twelve Months Ended September 30, 2012, 2011, and 2010

	2012		2011		2010	
Net sales	$ 158,784,471	100.0%	$ 162,020,525	100.0%	$ 112,828,496	100.0%
Cost of sales	136,580,958	86.0%	137,828,319	85.1%	96,952,237	85.9%
Gross profit	22,203,513	14.0%	24,192,206	14.9%	15,876,259	14.1%
Selling expenses	2,116,274	1.3%	2,071,418	1.3%	1,695,618	1.5%
General and administrative expenses	7,410,205	4.7%	7,281,690	4.5%	5,653,532	5.0%
Total SG&A	9,526,479	6.0%	9,353,108	5.8%	7,349,150	6.5%
Income from operations	12,677,034	8.0%	14,839,098	9.2%	8,527,109	7.6%
Interest income	28,680	0.0%	53,656	0.0%	14,201	0.0%
Other income	9,057	0.0%	33,851	0.0%	-	0.0%
Gain on forgiveness of debt	-	0.0%	549,997	0.4%	3,968,553	3.4%
Loss on investments	-	0.0%	(151,541)	0.0%	-	0.0%
Interest expense	(3,326,047)	2.1%	(3,881,005)	2.4%	(4,270,389)	3.8%
Loan fees	(337,454)	0.2%	(382,850)	0.2%	(631,731)	0.6%
Other expenses	-	0.0%	-	0.0%	-	0.1%
Net income before gain on write off of discontinued operations, income taxes and minority interest	9,051,270	5.7%	11,061,206	6.8%	7,607,743	6.7%
Gain on write off of liabilities related to discontinued operations	2,686,194	1.7%	-	0.0%	-	0.0%
Net income before income taxes and minority interest	11,737,464	7.3%	11,061,206	6.8%	7,607,743	6.7%
Income expense (benefit) taxes	(3,028,799)	1.9%	(2,067,263)	1.3%	636,181	0.6%
Net income before minority interest	14,766,263	9.3%	13,128,469	8.1%	6,971,562	6.2%
Minority interest	1,490,347	0.9%	1,711,338	1.1%	1,283,162	1.1%
Net income	$ 13,275,916	8.4%	$ 11,417,131	7.0%	$ 5,688,400	5.0%

For the twelve months ended September 30, 2012 and 2011

Net Sales

Net sales for the twelve months ended September 30, 2012 were $158.8 million, a decrease of $3.2 million, or 2%, over net sales of $162.0 million for the twelve months ended September 30, 2011. The decrease in net sales was primarily attributable to a decrease in tons invoiced of 7,100 tons, or 4.6%, and partially offset by an increase in the average selling price of $29 per ton, or 2.7%.

Cost of Sales

Cost of Sales for the twelve months ended September 30, 2012 were $136.6 million, a decrease of $1.2 million, or 1%, over cost of sales of $137.8 million for the twelve months ended September 30, 2011. The decrease in cost of sales was primarily due to a decrease in utilities expense of $1.4 million. Utilities expense is comprised of oxygen, natural gas, electric and other related items. For the twelve months ended September 30, 2012, natural gas costs decreased by approximately $750,000 due to reductions in prices, electric costs decreased by $580,000 due to reductions in prices, and oxygen costs decreased by approximately $142,000 due to lower consumption.

Selling Expenses

Selling expenses for the twelve months ended September 30, 2012 were $2.1 million, which were consistent with selling expenses for the twelve months ended September 30, 2011 of $2.1 million.

General and Administrative Expenses

General and administrative expenses for the twelve months ended September 30, 2012 were $7.4 million, an increase of $128,515, or 2%, over general and administrative expenses for the twelve months ended September 30, 2011 of $7.2 million. The increase in general and administrative expenses was primarily related to an increase in legal fees of $679,985 and taxes and licenses of $129,691, partially offset by a decrease in incentive management fees of $418,259.

Interest Income

Interest income for the twelve months ended September 30, 2012 was $28,680, a decrease of $24,976, or 47%, from interest income of $53,656 for the twelve months ended September 30, 2011. The decrease in interest income was primarily attributable to higher interest income recognized for the twelve months ended September 30, 2011 related to interest income received from gas and electric related deposits.

Other Income

Other income for the twelve months ended September 30, 2012 was $9,057, a decrease of $24,794, or 73%, from other income of $33,851 for the twelve months ended September 30, 2011. During the twelve months ended September 30, 2011, the Company received $21,012 as a reimbursement for a load of stolen steel and $2,039 from a previously bankrupt customer dating back more than five years.

Interest Expense

Interest expense for the twelve months ended September 30, 2012 was $3.3 million, a decrease of $554,958, or 14%, over interest expense of $3.9 million for the twelve months ended September 30, 2011. The decrease in interest expense was primarily attributed to a decrease in interest accrued of $894,852 on KES' subordinated loans payable, due to KES' repurchase of $9.1 million of aggregate principal of the subordinated loans plus $2.9 million in accrued interest thereon from the holders thereof on September 30, 2011, and KES' payment of $844,497 of accrued interest on subordinated loans on March 23, 2012 resulting in lower average subordinated loan balances carried by KES for the twelve months ended September 30, 2012 versus September 30, 2011.

Loan Fees

Loan fees for the twelve months ended September 30, 2012 were $337,454, which was consistent with loan fees for the twelve months ended September 30, 2011 of $382,850. The slight decrease in loan fees were primarily attributable to a reduction of $33,300 in guaranty fees and a reduction in the bank audit fees for the twelve months ended September 30, 2012.

Gain on Write Off of Liabilities related to Discontinued Operations

Gain on the write off of liabilities related to discontinued operations was $2.7 million. The Company did not recognize any gain on the write off of liabilities related to discontinued operations for the year ended September 30, 2011. The Company wrote off $2.7 million in liabilities that it determined are no longer due. The Company has reserved $298,466, against estimated tax liabilities that still remain related to the discontinued operations.

Income Tax Expense

Income tax benefit for the twelve months ended September 30, 2012 was $3.0 million, an increase of $961,536 million, or 47%, over income tax benefit of $2.1 million for the twelve months ended September 30, 2011. The increase was primarily attributable to the recognition of future tax benefits attributable to the Company's Net Operating Loss of $258 million.

For the twelve months ended September 30, 2011 and 2010

Net Sales

Net sales for the twelve months ended September 30, 2011 were $162.0 million, an increase of $49.2 million, or 44%, over net sales of $112.8 million for the twelve months ended September 30, 2010. The increase in net sales was primarily attributable to an increase in tons invoiced of 26,934 tons, or 21.3%, and an increase in the average selling price of $165 per ton, or 18.5%.

Cost of Sales

Cost of Sales for the twelve months ended September 30, 2011 were $137.8 million, an increase of $40.9 million, or 42%, over cost of sales of $97.0 million for the twelve months ended September 30, 2010. The increase in cost of sales was primarily due to the increased costs of scrap and purchased billets.

Selling Expenses

Selling expenses for the twelve months ended September 30, 2011 were $2.1 million, an increase of $375,800, or 22%, over selling expenses of $1.7 million for the twelve months ended September 30, 2010. The increase in selling expenses was primarily attributable to an increase in sales commissions and wages of $390,283.

General and Administrative Expenses

General and administrative expenses for the twelve months ended September 30, 2011 were $7.3 million, an increase of $1.6 million, or 29%, over general and administrative expenses of $5.7 million for the twelve months ended September 30, 2010. The increase in general and administrative expenses was primarily due to increases in management incentive fees of $1.3 million, legal fees of $240,285 and repairs and maintenance of $125,524.

Interest Income

Interest income for the twelve months ended September 30, 2011 was $53,656, an increase of $39,455, or 278%, over interest income of $14,201 for the twelve months ended September 30, 2010. The increase was primarily due to interest income received from gas and electric related deposits.

Other Income

The Company recognized $33,851 in other revenue for the twelve months ended September 30, 2011. The Company did not have any other revenue for the twelve months ended September 30, 2010. During the twelve months ended September 30, 2011, the Company received $21,012 as a reimbursement for a load of stolen steel and $2,039 from a previously bankrupt customer dating back more than five years.

Gain on Forgiveness of Debt

Other income for the twelve months ended September 30, 2011 was $549,997, a decrease of $3.4 million, over other income of $4.0 million for the twelve months ended September 30, 2010. The decrease 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 during the year ended September 30, 2010.

Interest Expense

Interest expense for the twelve months ended September 30, 2011 was $3.9 million, a decrease of $389,384, or 9%, over interest expense of $4.3 million for the twelve months ended September 30, 2010. The decrease in interest expense was primarily attributed to lower average debt balances carried by the Company and a reduction of the Company's average principal balances on the Company's term notes during the year due to payments of principal.

Loan Fees

Loan fees for the twelve months ended September 30, 2011 were $382,850, a decrease of $248,881, over loan fees of $631,731 for the twelve months ended September 30, 2010. The decrease in loan fees was primarily related to the difference in number of months of amortization for the twelve months ended September 30, 2011 compared to September 30, 2010. The Company took a full year's amortization expense for the twelve months ended September 30, 2010 versus five months of amortization for the twelve months ended September 30, 2011, since the loan was due in February of 2011.

Income Tax Benefit/Expense

Income tax benefit for the twelve months ended September 30, 2011 was $2.1 million, a decrease of $2.7 million, over income tax expense of $636,181 for the twelve months ended September 30, 2010. The decrease was primarily attributable to the recording of a portion of the Company's net operating loss as a component of deferred tax assets. The Company has $258 million in net operating losses. The Company has demonstrated the ability to generate consistent taxable income, therefore the Company recognized $2.6 million in net deferred assets related to the Company's net operating loss.

If the Merger is completed, until the Company has another asset with a history of taxable income, the Company may need to eliminate deferred tax assets related to the NOLs from its balance sheet.

Liquidity and Capital Resources – September 30, 2012

The Company recognized net income of $13.3 million for the year ended September 30, 2012 and generated a positive cash flow from operating activities of $14.7 million for the year ended September 30, 2012. The Company used $13.1 million in financing activities, $70,274 from investing activities and had a stockholder's deficit of $13.3 million, which was primarily comprised of an accumulated deficit of $301.4 million, partially offset by an increase in additional paid-in-capital of $288.4 million at September 30, 2012.

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the Credit Facility will be adequate to fund its operations through September 30, 2013. However, to the extent that the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

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

As of September 30, 2012, the balance outstanding on the Credit Facility was $11.2 million ($7.2 million under the Revolver, which includes the bank overdraft and an aggregate of $4.0 million under the Term Loan).

At September 30, 2012, KES was in compliance with all financial covenants under the Credit Facility based on its financial statements.

The long-term economic viability of the Mill and its ability to fund its operations and debt service requirements, including maintaining compliance with various debt covenants and servicing the interest and principal obligations under the Credit Facility and Subordinated Financing Agreement and the dividends and redemption features on the Series A Preferred Stock issued in connection with the acquisition of the Mill, is dependent on various internal and external factors, including the Mill's ability to operate on a sustained basis at 45% or more of its annual capacity of 200,000 tons per year, as currently

configured. To the extent that the Mill is not able to maintain an appropriate operating threshold, the ability of the Mill to generate sufficient cash flows to fund its operations and debt service requirements and maintain compliance with various debt covenants may be impaired.

Operating Activities

During the year ended September 30, 2012, the Company generated $14.7 million from operating activities, primarily attributable to net income of $13.3 million, and decreases in accounts receivable of $3.1 million and inventories of $4.3 million, partially offset by decreases in accounts payable of $2.3 million, increases in the deferred tax asset of $3.2 million and the write off of liabilities related to discontinued operations of $2.7 million.

Financing Activities

For the year ended September 30, 2012, the Company used $13.1 million in financing activities primarily attributable to payments against the line of credit of $9.6 million and payments against the PNC term note payable of $2.0 million.

Principal Commitments

At September 30, 2012, 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**	**2013**	**2014**	**2015**	**2016**	**Thereafter**
8% Subordinated loan payable	19,242	---	---	---	---	19,242
Revolver – PNC (includes book overdraft)	7,167	---	---	7,167	---	---
Operating leases	1,415	735	509	57	57	57
Term loan payable	4,000	4,000	---	---	---	---
Management services agreement	2,100	700	700	700	---	---
13% Series A Preferred Stock of subsidiary subject to mandatory redemption, including accrued dividends	11,803	---	---	---	---	11,803
Total contractual cash obligations	$ 45,727	$ 5,435	$ 1,209	$ 7,924	$ 57	$ 31,102

At September 30, 2012, the Company did not have any material commitments for capital expenditures.

At September 30, 2012, the Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $2,779,000.

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, 2012.

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 annual report, 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, 2012

/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 annual report, 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, 2012

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

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2012, 2011, AND 2010

	2012	2011	2010
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,823,576	$ 1,282,228	$ 391,470
Accounts receivable, less allowance for doubtful accounts of $534,447, $703,532, and $576,882, respectively	11,548,624	14,522,393	11,030,780
Inventory	24,005,885	28,351,131	21,272,658
Prepaid expenses and other current assets	1,252,102	1,310,364	1,078,846
Other receivables	71,701	-	430,822
Deferred tax asset	6,285,599	3,059,567	-
Total current assets	$ 45,987,487	$ 48,525,683	$ 34,204,576
Property, plant and equipment	$ 5,177,477	$ 5,107,203	$ 5,107,203
Less accumulated depreciation and amortization	(2,934,624)	(2,573,958)	(2,200,111)
Property, plant and equipment, net	$ 2,242,853	$ 2,533,245	$ 2,907,092
Other assets:			
Deferred loan costs, net	$ 274,494	$ 398,719	$ 176,712
Deposits	224,460	924,460	924,460
Investment in Bellator	90,228	90,228	241,769
Total other assets	589,182	1,413,407	1,342,941
Total assets	$ 48,819,522	$ 52,472,335	$ 38,454,609

(continued)

LIABILITIES AND STOCKHOLDERS' DEFICIENCY	2012	2011	2010
Current liabilities:			
Accounts payable	$ 7,619,591	$ 9,888,998	$ 6,111,990
Accrued expenses	4,522,920	4,854,768	4,579,538
Income taxes payable	50,485	867,300	328,073
Current portion of loan payable – Ableco	-	-	-
Current portion of term loans	4,000,000	2,535,208	3,209,395
Current portion of capital lease obligation	-	171,792	152,233
Liabilities related to discontinued operations	298,466	2,984,660	2,984,660
Total current liabilities	$ 16,491,462	$ 21,302,726	$ 17,365,889
Non-current liabilities:			
4% loan payable, $0, outstanding at September 30, 2012 and 2011, $1.3 million plus cumulative interest of $847,268 at September 30, 2010	-	-	2,147,268
8% subordinated secured loans	18,998,213	19,832,003	29,882,226
Secured line of credit	7,167,015	16,725,304	13,181,106
Term loan payable, less current portion	-	4,000,000	823,880
Capital lease obligation, less current portion	-	-	171,792
Series A Preferred stock of subsidiary subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share; 5,936 shares issued and outstanding at September 30, 2012 plus cumulative dividends of $5,867,750; 5,936 shares issued and outstanding at September 30, 2011 plus cumulative dividends of $5,093,760, 5,936 shares issued and outstanding at September 30, 2010 plus cumulative dividends of $4,321,885	11,803,750	11,029,760	10,257,885
Series A Preferred stock subject to mandatory redemption; 4% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $4.00 per share; There were no shares issued and outstanding at September 30, 2012 or 2011, 374,556 shares issued and outstanding at September 30, 2010 plus cumulative dividends of $775,790	-	-	2,274,014
Deferred tax liability	403,746	383,158	-
Minority interest – related parties	7,266,179	5,775,831	4,064,492
Total liabilities	$ 62,130,365	$ 79,048,782	$ 80,168,552
Commitments and contingencies			
Stockholders' deficiency:			
Preferred stock, $0.01 par value; authorized - $5,000,000 shares; There were no shares of Series A preferred stock outstanding at September 30, 2012 or 2011, 374,556 shares of Series A preferred stock, at September 30, 2010 (classified in long-term liabilities as preferred stock subject to mandatory redemption)			
Common stock, $0.01 par value; authorized – 100,000,000	$572,466	$569,340	$497,295

shares; 57,246,598, 56,934,040, and 49,729,574 issued and outstanding as of September 30, 2012, 2011, and 2010			
Additional paid in capital	$ 288,426,728	$ 288,365,584	$ 284,717,264
Accumulated deficit	$ (301,405,879)	$ (314,681,795)	$ (326,098,926)
Treasury stock – 786,600 shares, at cost	(904,158)	(829,576)	(829,576)
Total stockholders' deficiency	$ (13,310,843)	$ (26,576,447)	$ (41,713,943)
Total liabilities and stockholders' deficiency	$ 48,819,522	$ 52,472,335	$ 38,454,609

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2012, 2011, AND 2010

	2012	2011	2010
NET SALES	$ 158,784,471	$ 162,020,525	$ 112,828,496
COSTS AND EXPENSES			
Cost of sales	$ 136,580,958	$ 137,828,319	$ 96,952,237
Selling	2,116,274	2,071,418	1,695,618
General and administrative	7,410,205	7,281,690	5,653,532
Total	$ 146,107,437	$ 147,181,427	$ 104,301,387
Income from operations	$ 12,677,034	$ 14,839,098	$ 8,527,109
OTHER INCOME (EXPENSE)			
Interest income	$ 28,680	$ 53,656	$ 14,201
Interest expense	(3,326,046)	(3,881,005)	(4,270,389)
Loan fees	(337,455)	(382,850)	(631,731)
Gain on retirement of debt	-	549,997	3,968,553
Loss on investments	-	(151,541)	-
Other income	9,057	33,851	-
Total Other Expense, net	$ (3,625,764)	$ (3,777,892)	$ (919,366)
INCOME BEFORE GAIN ON WRITE OFF OF DISCONTINUED LIABILITIES, INCOME TAXES AND MINORITY INTEREST	$ 9,051,270	$ 11,061,206	$ 7,607,743
Gain on write off of discontinued liabilities	2,686,194	-	-
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	11,767,464	11,061,206	7,607,743
Income tax expense – current	176,645	685,641	656,759
Income tax benefit – deferred	(3,205,444)	(2,752,904)	(20,578)
Total income tax	(3,028,799)	(2,067,263)	636,181
INCOME (LOSS) BEFORE MINORITY INTEREST	$ 14,766,263	$ 13,128,469	$ 6,971,562
MINORITY INTEREST – related parties	1,490,347	1,711,338	1,283,162
INCOME (LOSS) FROM OPERATIONS	$ 13,275,916	$ 11,417,131	$ 5,688,400
NET INCOME PER COMMON SHARE -			
Basic	$0.23	$0.21	$0.12
Diluted	$0.22	$0.21	$0.11
NUMBER OF COMMON SHARES OUTSTANDING			
Basic	57,090,319	53,331,807	49,197,339
Diluted	59,490,319	54,856,807	49,722,339

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
YEARS ENDED SEPTEMBER 30, 2012, 2011, AND 2010

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
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 Income				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)
Restructuring of 4% Preferred Stock	3,774,632	37,746	1,849,569			1,887,315
Restructuring of 4% ALJ Note	3,429,834	34,299	1,680,619			1,714,918
Retirement of 2,928 Shares of KES Treasury Stock			(36,599)			(36,599)
Share based compensation						
Restricted Stock			29,528			29,528
Stock Options			125,203			125,203
Net Income				11,417,131		11,417,131
Balances at September 30, 2011	56,934,040	$ 569,340	$ 288,365,584	$ (314,681,795)	$ (829,576)	$ (26,576,447)
Share based compensation						
Restricted Stock	200,000	2,000	43,997			45,997
Stock Options	105,930	1,059	17,214			18,273
Escheated Stock	6,628	67	(67)			-
Treasury Stock					(74,582)	(74,582)
Net Income				13,275,916		13,275,916
Balances at September 30, 2012	57,246,598	$ 572,466	$ 288,426,728	$ (301,405,879)	$ (904,158)	$ (13,310,843)

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2012, 2011 AND 2010

		2012		2011		2010
CASH FLOWS FROM OPERATING ACTIVITIES						
Net Income	$	13,275,916	$	11,417,131	$	5,688,400
Adjustments to reconcile net loss to net cash used in operating activities:						
Share based compensation		18,273		154,731		212,120
Depreciation and amortization		360,666		550,559		400,522
Provision for bad debts		(169,085)		(126,650)		(86,139)
Gain on early extinguishment of 13% Preferred Stock		-		(147,941)		(3,729,995)
Gain on early extinguishment of 4% Notes Payable		-		(132,351)		(225,887)
Gain on write off of liabilities related to discontinued operations		(2,686,194)		-		-
Amortization of loan costs		124,225		-		444,816
Loss on investments		-		151,541		-
Minority interest - related parties		1,490,348		1,711,338		1,283,163
Changes in operating assets and liabilities:						
(Increase) decrease in -						
Accounts receivable, net		3,142,854		(3,364,963)		(1,509,638)
Inventories		4,345,246		(7,078,473)		(3,546,520)
Other assets		-		-		(158,824)
Prepaid expenses		(13,439)		199,305		(755,986)
Deferred tax asset		(3,226,032)		(3,059,567)		-
Deposits		700,000		-		-
Increase (decrease) in -						
Accounts payable		(2,269,407)		3,777,008		(1,869,789)
Income taxes payable		(816,815)		539,227		138,933
Accrued expenses (including unpaid cumulative dividends on preferred stock and interest payable)		442,142		3,176,708		2,475,492
Deferred tax liability		20,588		383,158		-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	14,739,286	$	8,150,761	$	(1,239,332)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment in Bellator	$	-	$	-	$	(29,269)
Investment in Equipment		(70,274)		-		-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$	(70,274)	$	-	$	(29,269)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from line of credit, net	$	(9,558,289)	$	3,544,198	$	8,656,774
Payments on capital lease obligations and contract payables		(171,792)		(152,233)		(135,100)
Partial repayment on 8% Subordinated loan		(833,790)		(11,867,492)		
Net proceeds from stock and options		45,997		-		12,000
Loan costs associated with refinancing		-		(711,053)		-
Additional borrowings from 4% Preferred Stock		-		38,843		59,929
Partial payments on 13% Preferred Stock		-		-		(5,712,609)
Cash payment on extinguishment of 4% Preferred Stock		-		(277,600)		-
Cash payment on extinguishment of 4% notes payable		-		(300,000)		(442,028)
Repayments on Abelco term loans		-		-		(5,592,011)

Repayments on PNC term loan		(2,000,000)		(3,514,714)		(500,000)
Proceeds from issuance of PNC Term Loan		-		6,014,714		4,000,000
Proceeds from issuance of Lake Forest Term Loan		-		535,208		533,275
Repayments on Lake Forest Term Loan		(535,208)		(533,275)		-
Repurchase of KES Treasury Stock		-		(36,599)		-
Repurchase of ALJ Treasury Stock		(74,582)		-		-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$	(13,127,664)	$	(7,260,003)	$	880,230
NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITES	$	1,541,348	$	890,758	$	(388,371)
CASH AND CASH EQUIVALENTS						
Net increase (decrease)	$	1,541,348	$	890,758	$	(388,371)
Balance at beginning of period		1,282,228		391,470		779,841
Balance at end of period	$	2,823,576	$	1,282,228	$	391,470
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:						
Interest paid	$	3,401,357	$	5,024,022	$	4,656,657
Income taxes paid	$	3,059,919	$	2,620,703	$	1,593,869

Noncash investing and financing transactions:

As part of the Company's debt restructuring in 2011, the Company has realized a gain of approximately $335,000 related to principal and accrued interest forgiven. Of this gain, approximately, $25,000 was recognized in 2011. The remaining portion of the gain from the restructure, approximately $310,000, was used to offset approximately $710,000 of loan and legal fees which are being amortized over the life of the loan.

In June 2011, ALJ extinguished the remaining $2.1 million of 4% Note Payable for $300,000 in cash and 3,429,834 shares of ALJ Common Stock.

In June 2011, ALJ exchanged 305,156 shares of ALJ Preferred Stock for 3,774,632 shares of ALJ Common Stock.

As part of the Company's debt restructuring in 2010, the Company has recorded $626,250 as a credit to additional paid-in capital and realized a gain of approximately $3.7 million related to accrued dividends forgiven. This gain is the net result of the gain being offset with approximately $750,000 in loan and legal fees related to the debt restructure.

During the year ended 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, 2012, 2011 AND 2010

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 KES 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 origination date through the loan maturity date. The loan cost amortization expense was $137,628, $176,212, and $444,816 for the year ended September 30, 2012, 2011 and 2010, respectively.

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 is subject to U.S. federal tax and state tax examinations for years ranging from 2004 to 2011. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render 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.

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, uses an expected dividend yield of zero.

Asset Retirement Obligations

The Company accounts for its asset retirement obligations in accordance with applicable standards which require 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.

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 ended September 30, 2012, 2011, and 2010 of approximately $3,077,000, $3,282,000, and $3,123,000, respectively. As of September 30, 2012, 2011, and 2010, estimated claims incurred but not reported were approximately $325,332, $227,838, and $445,600, 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, 2012, 2011, and 2010, the Company had uninsured cash balances of approximately $2,028,980, $1,032,228, and $141,000, respectively.

For the fiscal year ended September 30, 2012, the Company had four suppliers that accounted for approximately 64% of raw materials purchases, of which approximately $2.1 million was included in accounts payable at September 30, 2012. For the fiscal year ended September 30, 2011, the Company had four suppliers that accounted for approximately 65% of raw materials purchases, of which approximately $3.7 million was included in accounts payable at September 30, 2011. For the fiscal year ended 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.

For the fiscal year ended September 30, 2012, the Company had two customers that accounted for approximately 16% of net sales, of which approximately $3.4 million was included in accounts receivable at September 30, 2012. For the fiscal year ended September 30, 2011, the Company had four customers that accounted for approximately 22% of net sales, of which approximately $4.4 million was included in accounts receivable at September 30, 2011. For the fiscal year ended September 30, 2010, the Company had four customers that accounted for approximately 23% of net sales, of which approximately $3.5 million was included in accounts receivable at September 30, 2010.

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. Non-vested 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, 2012, 2011 and 2010:

	2012	2011	2010

Weighted average shares outstanding, basic	57,090,319	53,331,807	49,197,339
Dilutive effect of:			
Options to purchase common stock	2,400,000	1,525,000	525,000
Weighted average shares outstanding, diluted	59,490,319	54,856,807	49,722,339

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, 2012, 2011 and 2010.

Use of Estimates

The preparation of the financial statements in conformity with GAAP 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.

Reclassifications

Certain amounts for 2011 have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on the previously report net or comprehensive income.

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, 2012, 2011 and 2010, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of $298,466, $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. The Company wrote off $2.7 million in liabilities that it has determined are no longer due. The Company has reserved $298,466, against estimated tax liabilities that still remain related to the discontinued operations.

5. Accounts Receivable

The Company's accounts receivable are summarized as follows at September 30, 2012, 2011, and 2010:

	2012	2011	2009
Accounts receivable	$ 12,083,071	$ 15,225,925	$ 11,607,662
Less: Allowance for doubtful accounts	(534,447)	(703,532)	(576,882)
Accounts receivable, net	$ 11,548,624	$ 14,522,393	$ 11,030,780

6. Inventories

Inventories are comprised of the following at September 30, 2012, 2011, and 2010:

	2012	2011	2010
Raw materials and scrap	$ 2,268,113	$ 2,739,663	$ 2,264,749
Semi-finished goods	10,986,267	14,317,669	10,682,554
Finished goods	10,751,505	11,293,799	8,325,355
Total	$ 24,005,885	$ 28,351,131	$ 21,272,658

7. Property, Plant and Equipment

Property, plant and equipment consisted of the following at September 30, 2012, 2011, and 2010:

	2012	2011	2010
Land	$ 142,498	$ 142,498	$ 142,498
Buildings and improvements	572,497	572,497	572,497
Machinery and equipment	4,456,032	4,385,758	4,385,758
Vehicle	6,450	6,450	6,450
Total	5,177,477	5,107,203	5,107,203
Less: Accumulated depreciation and amortization	(2,934,624)	(2,573,958)	(2,200,111)
Property, plant and equipment, net	$ 2,242,853	$ 2,533,245	$ 2,907,092

Depreciation and amortization expense for the years ended September 30, 2012, 2011, and 2010 was $360,667, $373,847, and $400,522, 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 ended September 30, 2010 the Company invested $29,269 in Bellator. During the year ended September 30, 2011, the Company recognized a $151,541 loss on the investment in Bellator by writing down the investment to $90,228 as of September 30, 2011.

10. Long-Term Debt

Secured Credit Line and Restructure of Debt Obligations

On September 30, 2011, KES entered into the Amended and Restated Revolving Credit, Term Loan and Security Agreement (the "Loan Agreement") with PNC Bank, National Association. The Loan Agreement provides for an asset-based revolving credit line of $30 million (the "Revolver") and a term loan of $6 million (the "Term Loan," and together with the Revolver, the "Credit Facility"), which is an increase from KES' prior credit line of $23 million and term loan of $4 million. Interest is payable monthly in arrears on the outstanding principal balance at variable rates based on the LIBOR rate or a "Reference Rate." Under the terms of the agreement, KES can utilize short-term 30-Day LIBOR loans which enable KES to fix the Revolver loan pricing at a lower rate for a defined period of time. As of September 30, 2012, the Revolver had an outstanding balance of $2,667,015, bearing interest at 6.00% and two 30-Day LIBOR loans outstanding with balances of $2,500,000 and $2,000,000, each bearing interest at 4.50%. As of September 30, 2011, the Revolver had a balance of $16,725,304 with interest at 6.0%.

The Term Loan bears interest at variable rates based on LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. As of September 30, 2012, the outstanding balance on the Term Loan was $4,000,000 and the interest rate was 6.50%. As of September 30, 2011, the Term Loan had a balance of $6,000,000, bearing interest at 8.0%.

The Credit Facility is secured by all the assets of KES and contains customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios and has been presented as a non-current liability in the balance sheet. In addition, the Credit Facility contains an event of default if Jess Ravich is no longer on the ALJ Board of Directors. As of September 30, 2012, KES was in compliance with all specified covenants. In the event that KES is not in compliance with any financial covenants, KES intends to seek a waiver of any default from the lender, and if no such waiver is received, the lender would have the right to accelerate the maturity of the Credit Facility at that time. The Term Loan is to be repaid in equal principal payments of $500,000 per quarter over twelve quarters plus certain mandatory prepayments, however, for the year ended September 30, 2012, the entire balance of the term loan is classified as a current liability, since the excess cash flow sweep is greater than $2,000,000. The Revolver expires on September 30, 2014.

KES used proceeds of the Credit Facility as follows: (i) $11.7 million of the proceeds to redeem $9.1 million of principal and $2.9 million of accrued but unpaid interest on its Subordinated Loans (defined below) issued under the Subordinated Financing Agreement (defined below), leaving $19.8 million of principal and $1.6 million of accrued interest outstanding on such Subordinated Loans and (ii) to repay the outstanding amounts under the 2010 Loan Agreement (defined below). In conjunction with the repurchase of the Subordinated Loans, the Company recognized a gain on the forgiveness of debt of $337,320.

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

The Company had a loan payable to Lake Forest Bank and Trust Company with a balance of $535,208 as of September 30, 2011. The loan was due in three equal payments of $181,472, including interest. The payments were due every three months beginning on December 1, 2011. This loan was repaid in 2012. The Company had a similar loan in 2010 with a balance as of September 30, 2010 of $533,275. This loan was repaid in 2011.

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

Years Ending September 30	Principal Payments
2013	4,000,000
Total	$ 4,000,000

Historical Secured Lines of Credit and Term Loans

On May 28, 2010, KES entered into the Revolving Credit, Term Loan and Security Agreement (the "2010 Loan Agreement") by and among KES and PNC. Under the terms of the 2010 Loan Agreement, KES had the ability to borrow up to $23 million, 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 was based on KES' cash, accounts receivable, inventory and certain reserves. Interest was payable monthly in arrears on the outstanding principal balance at variable rates based on LIBOR or the base commercial lending rate of PNC. As of September 30, 2010, there was a balance of $13,181,106 outstanding on the line of credit bearing interest at 6.00%. All amounts outstanding under the 2010 Loan Agreement were repaid in connection with the closing of the Credit Facility.

As part of the 2010 Loan Agreement, the Company borrowed $4,000,000 in a term loan from PNC (the "2010 Term Loan"). The 2010 Term Loan matured on May 28, 2012 and amortized at $500,000 per quarter over the period of June 1, 2009 through May 28, 2012. In addition, the Term Loan was subject to annual "excess cash flow" payments. As of September 30, 2010, the balance of the term loan was $3,500,000. The 2010 Term Loan had a variable interest rate based on the LIBOR or

the base commercial lending rate of PNC. The 2010 Term Loan was repaid on September 30, 2011 in connection with the closing of the Credit Facility.

In prior years, KES had entered into a Financing Agreement with Ableco Finance, L.L.C., providing for two term loans, the first for $15 million and a second one for $4 million. The two term loans had an amended maturity date of February 23, 2011.The term loans bore interest at variable rates based on the LIBOR rate or a "Reference Rate." The term loans were paid in full as of September 30, 2010. The $4 million term loan was guaranteed by related parties pursuant to a Limited Guaranty agreement dated February 23, 2007.

8% Subordinated Loans

Subordinated loans (the "Subordinated Loans") consist of a series of loans due from KES under a Subordinated Financing Agreement dated July 20, 2009 by and among KES, the lenders party thereto and Ableco, L.L.C. (the "Subordinated Financing Agreement"), which replaced a series of subordinated secured promissory notes dated February 23, 2007, which were originally issued in March 2005 in connection with ALJ's acquisition of KES. The Subordinated Loans are subordinate to the Credit Facility. The Subordinated Loans bear interest at 8% per annum, with interest payable annually. So long as the Credit Facility remains outstanding, KES may, at its discretion, capitalize unpaid accrued interest into the outstanding Subordinated Loan principal. Principal on the Subordinated Loans is due and payable upon the earlier to occur of (i) an event of default under the Credit Facility or (ii) February 22, 2017. At September 30, 2012, 2011, and 2010, the principal balance outstanding on the Subordinated Loans was $18,998,213, $19,832,003, and $29,882,226, respectively. Accrued interest on the Subordinated Loans as of September 30, 2012, 2011, and 2010 was $1,556,002, $1,586,560, and $2,367,277, respectively. Interest capitalized on Subordinated Loans for the years ended September 30, 2012, 2011, and 2010 was $0, $0, and $1,298,813, respectively. At September 30, 2012, 2011, and 2010, the portion of the Subordinated Loans payable to related parties was $9,549,112, $9,968,204, and $15,482,222, respectively. The Subordinated Loans are secured by a second priority security interest in all of KES' assets.

The subordinated lenders include affiliates of Ableco, L.L.C., ALJ and three directors who currently serve on ALJ's Board of Directors.

4% Subordinated Promissory Notes

The 4% Subordinated Note (the "ALJ Note") was originally issued by ALJ on January 24, 2003 and bore interest at a rate of 4% per annum, which was payable annually, provided that ALJ obtained certain thresholds. All outstanding principal and interest was originally due in 2011. During the year ended September 30, 2010, ALJ 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 ALJ Note was also extended to June 30, 2014. The repurchase of a portion of the ALJ Note effected May 28, 2010 was treated as an early retirement of debt, as a result the carrying value of the ALJ Note was reduced to $2.1 million and no additional interest was accrued on the ALJ Note. On June 16, 2011, ALJ retired the remaining outstanding balance of the ALJ Note in consideration for $300,000 in cash and the issuance of 3,429,834 shares of ALJ's common stock. The outstanding principal balance of the ALJ Note as of September 30, 2012, 2011, and 2010 was $0, $0, and $1.3 million, respectively. Interest accrued on the ALJ Note as of September 30, 2012, 2011, and 2010 was $0, $0, and $847,268, respectively.

Each of the foregoing transactions was approved by the Board of Directors of ALJ.

11. Redeemable Preferred Stock

4% Series A Preferred Stock

In January 2003, pursuant to the ALJ amended articles of incorporation, ALJ issued 1,000,000 shares of 4% Series A Preferred Stock with the following rights, preferences and privileges:

a. Dividend Rights. The holders of the shares of 4% Series A Preferred Stock were 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 were payable, when and as declared by the ALJ 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. ALJ was to 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, 2012, 2011, and 2010, the redemption value of the issued and outstanding shares of 4% Series A Preferred Stock recorded on ALJ's consolidated balance sheet was $0, $0, and $2,274,014, respectively.

c. Convertibility and Voting Rights. The 4% Series A Preferred Stock was not convertible into any other security of ALJ, and the holders thereof had 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 February 15, 2011, ALJ repurchased 69,400 shares of its 4% Series A Preferred Stock, plus accrued dividends thereon for an aggregate consideration of $277,600 (the "2011 Stock Repurchase"), from three individuals, two of whom are related parties. The repurchased stock had a face value of $277,600 plus accrued dividends of approximately $147,941. ALJ recognized a gain of $147,941 in connection with the 2011 Stock Repurchase.

On June 16, 2011, ALJ exchanged 305,156 shares of its 4% Series A Preferred Stock (the "Exchanged Stock"), plus accrued dividends thereon for aggregate consideration of 3,774,632 shares of ALJ's Common Stock (the "Stock Exchange"). Following the Stock Exchange, there are no shares of 4% Series A Preferred Stock outstanding. The aggregate liquidation value of the 4% Series A Preferred Stock outstanding at June 16, 2011 was approximately $1,887,316. The Stock Exchange took place at an implied price of $0.50 per share. All 305,156 shares of Exchanged Stock were held by an affiliated party.

Each of the foregoing transactions was approved by the Board of Directors of ALJ.

Pursuant to SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," because the 4% Series A Preferred Stock provided for a mandatory redemption in cash, it was classified as a long-term liability at the future redemption value for the year ended September 30, 2010.

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, KES issued 25,000 shares of its 13% Series A Preferred Stock with the following rights, preferences and privileges:

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

b. Liquidation and Redemption. The 13% Series A Preferred Stock contains a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and is redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of KES' full and complete repayment of the Subordinated Loans. As of September 30, 2012, the balance outstanding on the 13% Series A Preferred Stock was $5,936,000, related accrued dividends payable were $5,867,750, and $1,899,000 of the preferred stock was held by related parties. As of September 30, 2011, the balance outstanding on the 13% Series A Preferred Stock was $5,936,000, related accrued dividends payable were $5,093,760 and $1,899,000 of the preferred stock was held by related parties. As of September 30, 2010, the balance outstanding on the 13% Series A Preferred Stock was $5,936,000, related accrued dividends payable were $4,321,885 and $1,899,000 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. KES used proceeds from the 2010 Loan Agreement to repurchase the preferred stock. KES 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 of $4.5 million was netted against $750,000 in loan and legal fees related to the 2010 Loan Agreement. The Repurchased Stock had a face value of approximately $6.6 million plus accrued dividends of approximately $4.5 million. These transactions were approved by the Board of Directors of KES and ratified by the ALJ Board of Directors.

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, 2012 of $11,803,750 including cumulative dividends of $5,867,750.

12. Income Taxes

For the twelve months ended September 30, 2012, 2011, and 2010, 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 ended September 30, 2012, 2011, and 2010, consisted of the following:

	2012	2011	2010
Income tax expense – current			
Federal	$ 32,550	$ 247,914	$ 171,540
State	144,095	437,727	485,219
	$ 176,645	$ 685,641	$ 656,759
Income tax benefit – deferred			
Federal	$ 531,554	$ 3,621,644	$ 1,839,961
State	(405,032)	(79,548)	(15,710)
Change in valuation allowance	(3,331,966)	(6,295,000)	(1,844,829)
	(3,205,444)	(2,752,904)	(20,578)
	$ (3,028,799)	$ (2,067,263)	$ 636,181

Significant components of the Company's deferred tax liabilities and assets as of September 30, 2012, 2011and 2010 are as follows:

	2012	2011	2010
Net deferred tax assets:			
Net operating loss carryforwards	$87,694,526	$90,809,945	$94,714,588
Accrued interest/dividends	620,899	143,030	161,912
Management incentive	682,038	488,372	182,945
Accrued health care cost	130,133	52,403	102,485
Accrued remediation cost	28,736	14,863	13,075
Allowance for doubtful accounts	213,778	161,812	132,683
Accrued vacation	-	2,044	10,651
Tax amortization below book	2,028,882	2,350,271	2,671,660
Other	167,543	-	-
Net deferred tax asset	$ 91,566,535	$ 94,022,740	$ 97,989,999
Net deferred tax liabilities			
Tax depreciation in excess of book	$ (461,050)	$ (414,815)	$ (440,855)
Asset retirement obligation	57,304	31,657	30,418
Net deferred tax liabilities	$ (403,746)	$ (383,158)	$ (410,437)
Total net deferred tax assets	$ 91,162,789	$ 93,639,582	$ 97,579,562

Less Valuation Allowance	$(85,280,936)	$(90,963,173)	$(97,579,562)
	$ 5,881,853	$ 2,676,409	$ -

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

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to tax examinations for periods post 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.

For the twelve months ended September 30, 2012, the net deferred tax assets increased by $3,205,444. This increase was primarily the result of the reduction in the valuation allowance against the net deferred tax asset.

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carry-forward. There has been significant positive evidence established by the Company to justify that only a partial valuation allowance is necessary. The Company has shown consistent profitability over the past three years. Management also projects continued taxable income. Management believes it will be able to recognize a portion of its Net Operating Loss over the coming years. A valuation allowance of $85,280,936 has been established against the net deferred tax asset of $91,162,789 as of September 30, 2012.

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 ended September 30, 2012, 2011 or 2010, respectively.

At September 30, 2012, the Company had a net operating loss carry-forward for federal income tax purposes of approximately $258 million that expires from 2020 through 2028. The use of approximately $36 million of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

Additionally, if the Merger is completed, the Company's ability to utilize our NOLs to offset future tax liabilities may be limited even if it acquires another business which generates taxable income. For example, if it takes the Company substantially more than one year to acquire another business, it may be treated as having liquidated for U.S. federal income tax purposes, which could prevent the Company from being able to its NOLs to offset future income of the new business.

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 ended September 30, 2011 and 2010, by using the Black-Scholes option-pricing model. The Company did not issue any stock options or warrants during the year ended September 30, 2012. Included in the selling, general and

administrative expenses for the twelve month periods ended September 30, 2012, 2011, and 2010, the Company recognized share-based share compensation expense of $17,214, $154,731, and $212,120, respectively, including $17,214, $29,528, and $31,250, respectively, related to the issuance of restricted stock and $0, $125,203, and $180,870, respectively, related to the issuance of stock options.

During the twelve months ended September 30, 2010, the Company issued 164,470 restricted shares to the Board of Directors as part of their compensation. These restricted shares vested ratably over a one year period. The restricted shares were issued at an average weighted average share price of $0.38 per share. All of these restricted shares were fully vested as of September 30, 2012.

During the twelve months ended September 30, 2011, the Company issued 105,930 restricted shares to the Board of Directors as part of their compensation. These restricted shares vested ratably over a one year period. The restricted shares were issued at an average weighted average share price of $0.38 per share. All of these restricted shares were fully vested as of September 30, 2012.

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. The Company did not issue any restricted stock grants during the twelve months ended September 30, 2012. For restricted stock grants issued during the twelve months ended September 30, 2010, the Company computed volatility of 135% and a risk-free interest rate of 0.32%. For restricted stock grants issued during the twelve months ended September 30, 2011, the Company computed volatility of 106% and a risk-free interest rate of 0.15%. 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 ended September 30, 2012, 2011, or 2010. As of September 30, 2012, there were options with respect to 2.4 million shares fully vested and outstanding. The weighted average remaining contractual life for the options was 5.2 years. The weighted average exercise price was $0.40 per share. The range of the exercise price per share is $0.23 per share to $0.59 per share.

There were no common stock warrants exercised or outstanding as of September 30, 2012.

14. 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 rent payments required under operating leases, all of which expire by 2017, for which the Company is obligated more than one year at September 30, 2012 are as follows:

Year Ending September 30,	
2013	$ 735,798
2014	509,615
2015	57,249
2016	57,249
2017	57,249
Total	$ 1,417,160

Total rental expense was $735,798, $723,908 and $723,908 for the years ended September 30, 2012, 2011, and 2010, respectively.

Operating Commitments

The Mill has been operating under a Management Agreement with a management company effective through September 30, 2015 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 $2,405,096, $2,823,355, and $1,498,061, for the twelve months ended September 30, 2012, 2011, and 2010. As of September 30, 2012, 2011, 2010, the balance of accrued management fee was $1,705,096, $2,123,355, and $795,413, 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 $2,779,000, $3,593,000, and $3,036,000 at September 30, 2012, 2011, and 2010, respectively.

The Company has a defined contribution pension plan for eligible employees who have completed one month of service and have attained the age of twenty-one. The Company's matching contribution equals 100% of each participant's elective deferral, not to exceed 6% of their eligible compensation. Participants are immediately vested in their deferred compensation and earnings thereon. The participant becomes 100% vested after one year of credited service. The Company may make other discretionary contributions to be determined on an annual basis. The Company's contributions charged to operations in the years ended September 30, 2012, 2011, and 2010 were approximately $475,000, $462,000, and $410,000, respectively.

Uncertainties and Contingencies

Historically, the Company has been subject to various lawsuits, claims and other legal actions arising in the ordinary course of business. On December 5, 2012, SWVA, Inc. ("SWVA"), the lessor of KES's ladle metallurgy furnace, filed a civil lawsuit against KES in the Cabell County Circuit Court of West Virginia. The action arises from an alleged breach of the ladle metallurgy furnace lease, as a result of the Merger. Specifically, SWVA alleges that its consent is required to effect the Merger. The complaint seeks, among other remedies, injunctive relief to enjoin the Merger and further use of the ladle metallurgy furnace, and immediate payment of all sums due under the ladle metallurgy furnace lease. On December 13, 2012, SWVA filed a motion for injunctive relief seeking, among other remedies, a preliminary injunction to enjoin the Merger and further use of the ladle metallurgy furnace. On December 20, 2012, the court held a hearing and denied SWVA's motion for injunctive relief. The Company believes it has meritorious defenses to SWVA's allegations and will vigorously defend itself against this lawsuit, however, should SWVA prevail in the litigation, it could result in a loss of use of the ladle metallurgy furnace, as well as the monetary damages. While the Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company, its outcome is not determinable and a negative outcome may adversely affect the Company's financial position, liquidity, or results of operations.

The Company cannot predict the impact (if any) that the matter described above may have on its business, results of operations, financial position or cash flows. Because of the inherent uncertainty of such matter, including the early stage and lack of specific damage claims, the Company cannot estimate the possible loss from such matter.

As of December 31, 2012, management was not aware of any legal contingencies involving the Company, other than the matter described above. In the opinion of management, any potential matters other than the matter described above, involve such amounts that unfavorable disposition would not have a material adverse effect on the financial position or results of operations of the Company.

15. Subsequent Events

On November 18, 2012, ALJ and KES entered into a definitive merger agreement (the "Merger Agreement") for the sale of KES to Optima for $112.5 million in cash (the "Merger"). The transaction will be effected as a merger of Optima's wholly owned subsidiary KES Optima Acquisition Inc. with and into KES with KES surviving as a wholly owned subsidiary of Optima. The Merger was unanimously approved by the ALJ Board and was approved by the stockholders of ALJ at the special stockholders meeting held on December 21, 2012. The Merger is conditioned upon, among other customary closing conditions, Optima arranging and closing, no later than February 28, 2013, the sale of additional 12.5% senior secured notes due 2016 issued pursuant to that certain indenture dated as of December 5, 2011 among Optima, each of Optima's existing

and future domestic subsidiaries (other than immaterial subsidiaries) as guarantors and Wilmington Trust, N.A. as trustee as trustee and noteholder collateral agent, for not less than $50 million in gross proceeds (the "Note Offering"). Optima has advised us it is not currently pursuing the Note Offering, but that it is currently exploring various potential financing options that would enable it to complete the transaction on or before the "Outside Date" under the Merger Agreement, which is February 28, 2013.

The obligation of each of the parties to consummate the Merger is also conditioned upon the other parties' representations and warranties being true and correct and the other parties having performed in all material respects their obligations under the Merger Agreement. Each of the parties made customary representations, warranties and covenants in the Merger Agreement. The Company cannot estimate when, or if, Optima will complete the Note Offering or otherwise secure sufficient financing in lieu thereof or when, or if, the other conditions to closing in the Merger Agreement will be satisfied. Therefore, the Company cannot estimate when, or if, the Merger will close.

The Merger Agreement contains certain termination rights for ALJ, KES and Optima, including, without limitation, if the Merger is not consummated on or before February 28, 2013. The Merger Agreement provides that, upon termination of the Merger Agreement under specified circumstances, including certain terminations in connection with an alternative business combination transaction as permitted by the terms of the Merger Agreement, KES may be required to pay Optima a termination fee of $3,375,000. Further, the Merger Agreement may be terminated by ALJ, KES or Optima if Optima is unable to consummate the Note Offering by February 28, 2013, and in such an event, Optima will be required to pay KES a reverse termination fee of $3,375,000.

Additionally, on November 19, 2012, the Company launched a modified "Dutch auction" tender offer for up to 30,000,000 shares of its common stock at a price per share not greater than $0.86 and not less than $0.84 (the "Tender Offer"). Under the Tender Offer, stockholders will have the opportunity to tender some or all of their shares at a price within the $0.84 to $0.86 per share price range. The Tender Offer was originally set to expire at 12:00 midnight, New York City time, on December 24, 2012. However, on December 17, 2012, the Company extended the expiration of the Tender Offer to 12:00 midnight, New York City time, on January 17, 2013. The Tender Offer is conditioned upon the closing of the Merger, which in turn is conditioned upon Optima securing sufficient financing to complete the Merger. As of December 24, 2012, 21,494,155 shares of common stock have been tendered and deposited in the Tender Offer.

In connection with the Merger and Tender Offer, ALJ has decided to postpone any relisting of its stock on a national exchange until such time when it has substantial operations and the Board determines that the cost of such listing is warranted and beneficial to ALJ stockholders.

The Company currently plans to use approximately 50% of the expected unrestricted cash at ALJ following the Merger (approximately $25.2 million to $25.8 million) to purchase up to 30,000,000 shares of its common stock from its stockholders in the Tender Offer. The Company plans to use the remainder of expected cash at ALJ following the Merger for future acquisitions or investments in other companies and businesses or for other strategic options. However, the Company is not required to make any such acquisitions, and at this time no specific acquisition targets have been determined.

If Merger is not completed, the Company expects to reassess its options in light of its strategic goals and any alternatives that may be available to it.

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****	Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of September 30, 2011, by and among KES, the financial institutions from time to time a party thereto and PNC as a lender and agent for the lenders.
11*	Second Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated May 28, 2010.
12****	Third Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated September 30, 2011.
13*****	Agreement and Plan of Merger dated November 18, 2012 by and among KES Acquisition Company, ALJ Regional Holdings, Inc., Optima Specialty Steel, Inc. and KES Optima Acquisition Inc.
14*****	Form of Stockholder Support Agreement
15*****	Form of Voting and Tender Agreement

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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.
****	Filed with the Company's Annual Report for the period ended September 30, 2011.
*****	Filed with the Company's Current Report dated November 18, 2012.